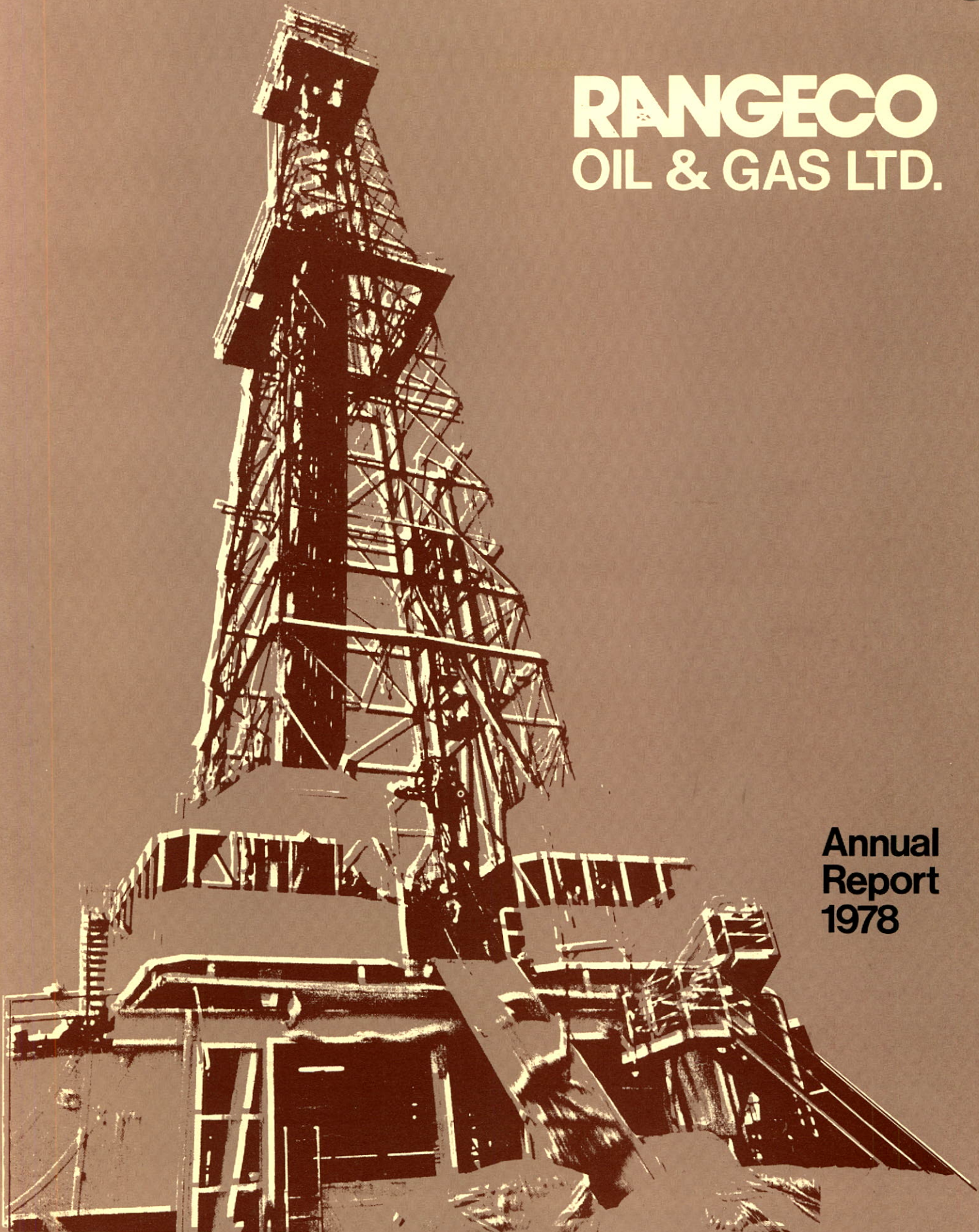


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# **RANGECO**

## **OIL & GAS LTD.**

**Annual  
Report  
1978**







**ALBERTA & NE. BRITISH COLUMBIA**

MILES 0 50 100 150  
SCALE

★ CURRENT ACTIVE EXPLORATION AREAS



# Corporate Information

## Corporate Profile

Rangeco was incorporated in the Province of Alberta on November 10, 1976. The Company has producing and non-producing oil and gas reserves in various parts of Alberta and Northeast British Columbia.

Rangeco shares were listed on the Alberta Stock Exchange in July, 1978 following a share split of 4 for 1.

## Officers

D. G. Flanagan — President  
L. Waisberg — Secretary  
P. H. Depper — Assistant Secretary

## Bankers

Bank of Montreal  
Calgary, Alberta

## Auditors

Thorne Riddell & Co.  
Calgary, Alberta

## Share Listing

Alberta Stock Exchange

## Board of Directors

D. G. Flanagan (Calgary, Alberta)  
President of the Company  
A. G. Hall (Calgary, Alberta)  
Petroleum Consultant  
H. A. Irving (Calgary, Alberta)  
President, Irving Holdings Ltd.  
R. G. Jennings (Calgary, Alberta)  
Financial Consultant  
L. Waisberg (Toronto, Ontario)  
Partner, Goodman & Goodman

## Solicitors

MacKimmie Matthews  
Calgary, Alberta

## Corporate Registrar and Transfer Agents

The Canada Trust Company

## Head Office

1550 Daon Building  
444 - 5 Avenue S.W.  
Calgary, Alberta  
T2P 2T8

# President's Report

During the year 1978 Rangeco continued to actively participate in oil and gas exploration under the terms of the original management agreement with Ranger Oil (Canada) Limited. Pursuant to that agreement, Ranger has full discretion as to the expenditure of the original subscribers' funds until June 30, 1979, or until all of the funds are spent, whichever comes earlier. Funds spent from commencement of the program in 1977 to December 31, 1978 amounted to \$9,760,973, leaving \$2,352,277 available in 1979. During 1978 Rangeco participated in 12 wells, resulting in 2 gas wells, 4 oil wells and 6 dry holes, bringing the total cumulative participation to December 31, 1978 to 22 wells, of which 9 were gas, 5 were oil and 8 dry holes. Ranger expects to spend the remaining funds prior to June 30, 1979 and to participate on Rangeco's behalf in 15 additional wells during 1979.

Details of the various exploration prospects are discussed individually throughout this report. The significant successful ventures drilled to date are Suffield, Alberta and Gopher, B.C. gas plays and the oil development program in the Keystone area of Alberta. In Suffield, 4 gas wells were completed, one of which had an A.O.F. test of 38,000 Mcf/d. In August, 1978 a contract was signed with Pan-Alberta Gas Ltd. for marketing this gas at an average daily rate of 7,150 Mcf provided Pan-Alberta is granted export approvals.

In the Gopher area of B.C., the first well commenced production in November, 1978 and is currently producing at a rate of 2,200 Mcf/d, of which Rangeco's share is 35%. Production revenue from this well had no significant effect in 1978 but will contribute materially in 1979.

In the Keystone area of Alberta, 4 oil wells were drilled in 1978 and since the year end 3 additional wells have been completed with 1 more expected to be drilled in the near future. The participating companies are currently considering a development program with several additional wells being drilled as well as a secondary recovery scheme which will substantially increase the Company's oil reserves.

The two most promising projects in which Rangeco has an interest are Pembina West and Elmworth, neither of which has yet been drilled. In Pembina West, Rangeco has interests ranging between 7% to 35% in 2,560 acres. Two drilling rigs commenced drilling the first 2 wells on March 19, 1979, and will take approximately 60-70 days to reach total depth. It is expected that at least 4 wells will be drilled on these lands within the next 6 months. Rangeco's investment in lease costs is approximately \$1.6 million.

In Elmworth, Rangeco has an 8.75% interest in 8,640 acres at a cost of approximately \$1.177 million. Drilling is planned later in 1979.

## Financial

Production revenue and other income for 1978, after payment of government and subscribers' royalties, was \$264,227, mostly generated from the Company's interest in the Verger gas field. Revenue and operating costs for the Verger field reflected in the 1977 figures are for 6 months only. Net loss for 1978 was \$120,086.

Notes to the financial statements refer to a contingent asset in the form of a possible



deficiency payment due to Rangeco from Ranger. Under the terms of the management agreement, Ranger is to pay 100% of all equipment costs during the exploration period with the minimum amount payable by Ranger equal to 10% of the total original funds raised. This will amount to a minimum contribution of approximately \$1.3 million, of which \$335,000 was expended to December 31, 1978. Ranger has until June 30, 1980 to expend these funds or make a cash payment equivalent to the deficiency to Rangeco.

### **Corporate**

During the year the Common shares were split on the basis of 4 new shares for each old share and listed for trading on the Alberta Stock Exchange in July, 1978. The final distribution of Restricted Return shares together with the Royalty Certificate will be made after completion of the initial exploration period.

### **Future Rangeco Activities**

The exploration agreement with Ranger as mentioned earlier will terminate no later than June 30, 1979, at which time Rangeco will generate and participate in oil and gas activities for its own account. In connection with the termination of the management agreement, the directors appointed Mr. D. G. Flanagan as President to direct its future activities. Additional technical staff will be hired as required in due course.

Upon completion of the initial exploration phase with Ranger, Rangeco will have continued activities on properties earned or acquired during the first phase. The Elmworth properties, for example, while having

been acquired during the initial phase will not be drilled until probably late 1979 after the subscribers' funds have been spent. Additional development in the Keystone oil play is also contemplated after June 30, 1979. Until Rangeco's shut-in gas reserves become marketable the Company cannot generate sufficient cash flow in which to carry on these drilling activities and as a result additional financing will be necessary.

In addition to participating in drilling on existing properties, Rangeco intends to become active in other areas of Western Canada where geological potential and exploratory incentives are most attractive. The Company will seek to raise additional risk capital to explore in these new areas.

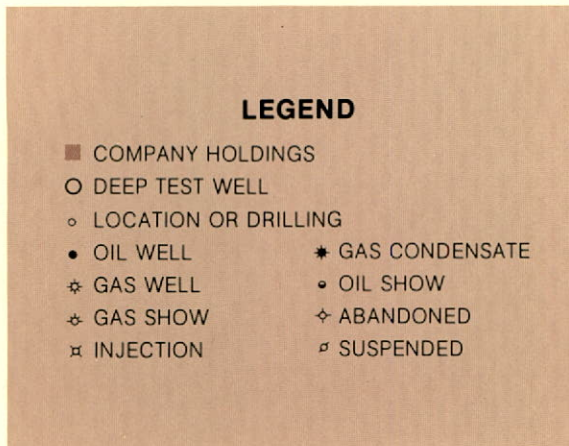
In summary, the Company, having almost reached the end of the first exploratory phase, is being readied to become an active independent oil and gas exploration company in its own right. The base from which we start will be the three producing properties in Verger, Keystone and Gopher, the shut-in gas reserves in other areas including Suffield and excellent exposure to the exciting plays in Pembina West and Elmworth.

DENNIS G. FLANAGAN

President

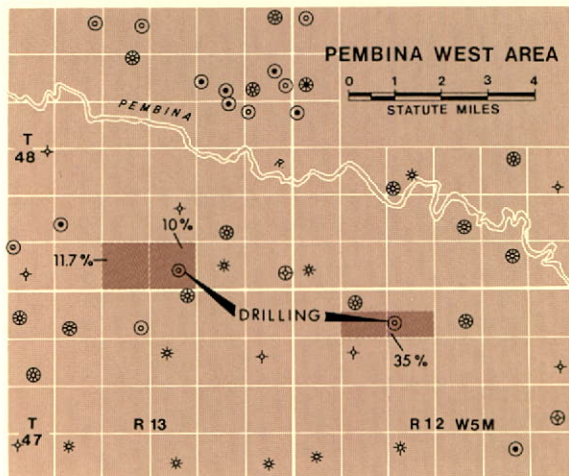
April 17, 1979.

## Exploration and Development Highlights



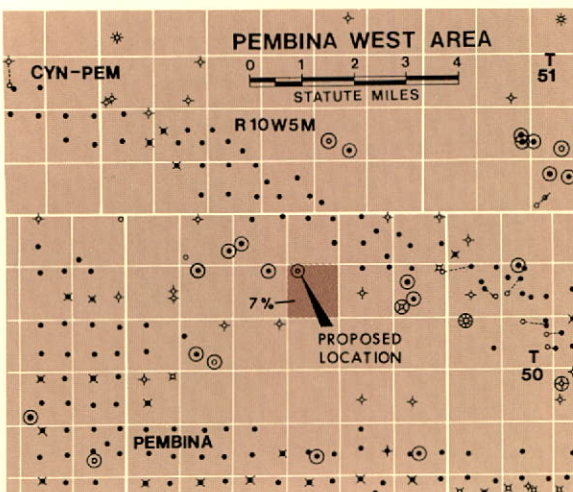
The Company's prime exploration areas of interest are its holdings in the Pembina West and Elmworth areas of Alberta. A total of 6 wells, in which the Company will have an interest, are planned for 1979.

Both of these areas have dominated the drilling activities in Alberta during the past year. Pembina West is a new oil play where several major oil discoveries have recently been made, whereas Elmworth is a major new gas play in Northern Alberta stretching west into British Columbia.



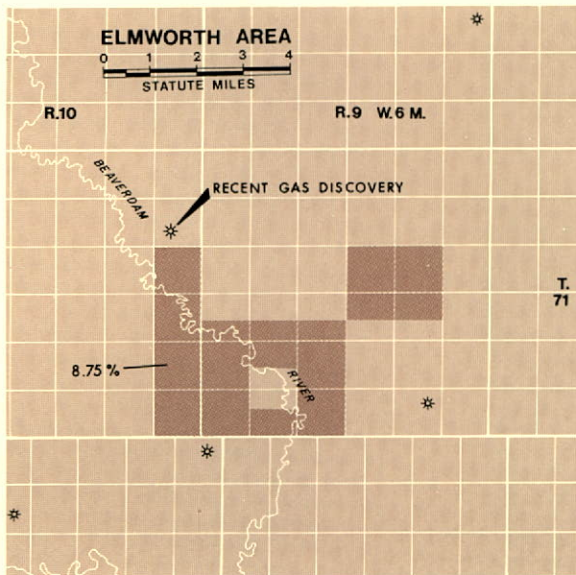
### Pembina West (Alberta)

The first 2 wells commenced drilling in mid-March in Pembina West and are scheduled to reach total depth in approximately 60-70 days. The 5-33 well is located on a 320 acre tract acquired at the July 2, 1978 Alberta Government Land Sale. Rangeco's interest is 35%.



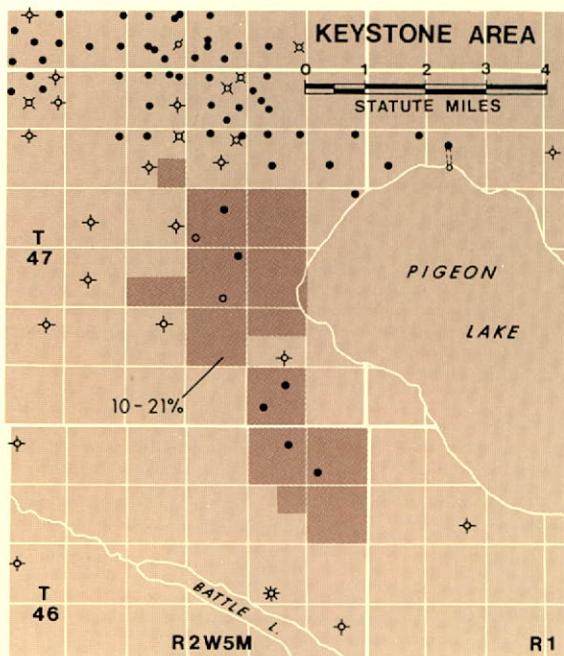
The other well located in 7-3-48-13 W5M is located on a 640 acre tract acquired at the August 2, 1978 Land Sale. Rangeco's interest is 7%. Two additional wells, one in Sec 4-48-13 W5M and the other in Sec 27-50-10 W5M, are expected to be drilled this Spring. Rangeco's interest in these two wells will be 11.7% and 7%, respectively.





### Elmworth (Alberta)

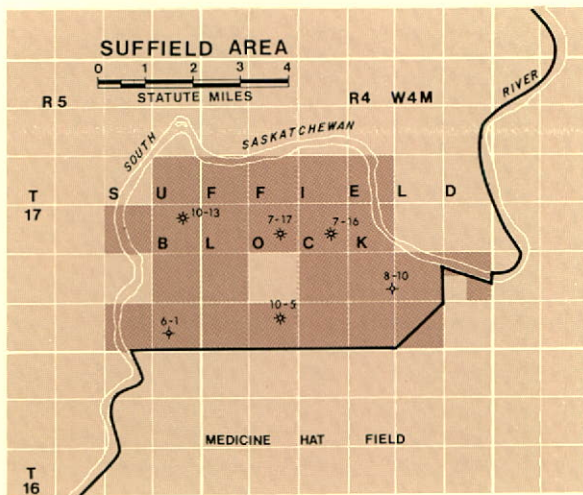
Rangeco has a net 8.75% interest in an 8,640 acre licence in the Elmworth area on which two wells are planned for drilling in 1979. A recent reported gas discovery was drilled approximately 1½ miles north of the northwest boundary of this licence.



### Keystone (Alberta)

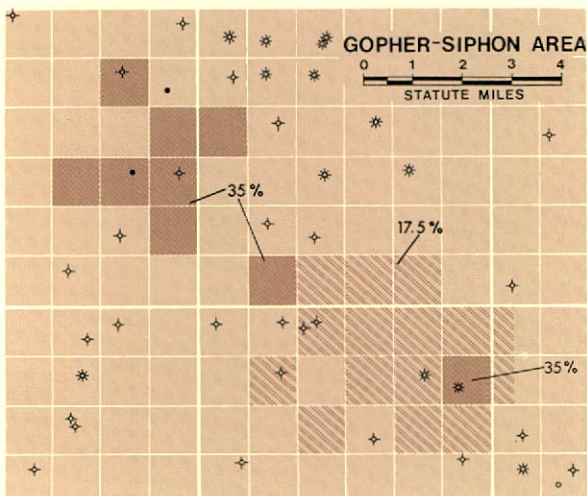
Rangeco has now participated in 7 oil wells with interests ranging between 10.5% and 21% in the Keystone area. The Company is a participant in a group which has earned or acquired interests in 5,116 acres with options to earn additional lands by drilling. The group is currently considering a substantial development drilling program which could result in several additional wells being drilled within the next year.

The first 4 wells are currently producing at a combined rate of approximately 3,700 barrels per month. The other 3 wells are waiting completion and should be producing soon.



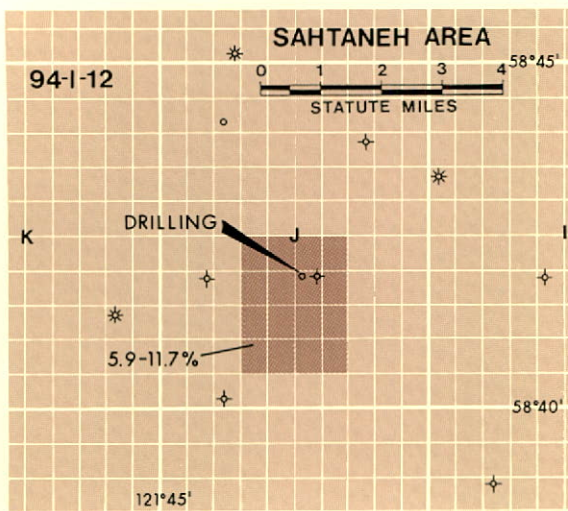
### Suffield (Alberta)

Rangeco has a net 11.67% interest in 15,200 acres and 4 gas wells in the Suffield area. These wells are currently shut-in pending marketing export permits. A conditional sales contract has been signed with Pan-Alberta Gas Ltd. to market gas at an average daily rate of 7,150 Mcf.



### Gopher (B.C.)

The first well in Gopher was drilled in December, 1977 and went on production in November, 1978 at a rate of approximately 2,200 Mcf/d. Rangeco's interest is 35%. The second well tested small amounts of gas and the third well was dry.



### Sahtaneh (B.C.)

Rangeco participated in a farmin of 2,560 acres approximately 45 miles east of Fort Nelson. Rangeco will earn a net interest of between 6.3% and 12.6%. The first well is currently drilling.



# Production and Reserves

## Production

Rangeco's share of production for 1978, after deducting lease royalty was 247,426 Mcf of gas and 1,223 barrels of oil. Gas production was primarily from the Verger properties acquired in late 1977. Production from the Gopher property in B.C. did not start until November, 1978 and therefore did not contribute materially in 1978. Oil production was all from Keystone where the first well commenced production in September, 1978.

## Reserves

Based on reserve calculations prepared by McDaniel Consultants (1965) Ltd. and Ranger Oil (Canada) Limited, Rangeco's net working interest share of reserves before royalty at December 31, 1978 was:

Proven gas	5.06	billion cu ft
Probable		
additional gas	1.02	billion cu ft
Proven oil	56,000	barrels

# Land

As at March 31, 1979, Rangeco has an interest in 134,701 gross acres in Alberta and Northeast B.C. as follows:

Area	Gross Acres	Net Acres	Drilling Activity
Suffield .....	15,200	1,773	4 gas, 2 dry
Verger .....	13,836	2,793	production acquisition — 1 infill gas well drilled
Gopher .....	10,407	2,047	2 gas, 1 dry
Keystone .....	5,116	677	7 oil, 1 planned
Peco .....	2,560	497	1 dry
Blueridge .....	8,480	1,484	1 dry
Rowley North .....	960	672	1 gas
Siphon .....	4,549	1,592	1 oil, 1 dry
Pembina West .....	2,560	554	2 drilling, 2 additional planned
Gold River .....	5,760	2,016	1 dry, 1 planned
Two Rivers .....	638	447	None
Elmworth .....	9,640	756	2 planned
Osborn .....	5,874	1,028	1 gas
Wolfe .....	3,801	665	1 gas
Rosevear .....	1,600	202	1 dry
Waskahigan .....	8,160	753	1 dry
Sahtaneh .....	2,560	300	1 drilling
Tooga .....	33,000	2,785	2 dry
TOTAL .....	<u>134,701</u>	<u>21,041</u>	10 gas
			8 oil
			11 dry
			3 drilling
			6 planned
			<u>38 wells</u>



# RANGECO OIL & GAS LTD.

## BALANCE SHEET

As at December 31, 1978

### ASSETS

#### Current assets

Cash.....	\$ 53,331	\$ 70,708
Accounts receivable.....	18,974	57,156
	<u>72,305</u>	<u>127,864</u>

#### Fixed assets

Resource properties, at nominal value.....	1	1
Exploration and development costs.....	2,794,200	362,900
Production equipment, at cost.....	44,431	41,606
Other equipment, at cost.....	8,730	—
	<u>2,847,362</u>	<u>404,507</u>
Accumulated depletion and depreciation.....	135,580	13,456
	<u>2,711,782</u>	<u>391,051</u>

Deferred income tax benefits (note 3) .....	103,800	115,100
	<u>\$2,887,887</u>	<u>\$634,015</u>

### LIABILITIES

#### Current liabilities

Accounts payable.....	\$ 62,929	\$113,739
Royalties payable to subscribers .....	22,840	29,372
	<u>85,769</u>	<u>143,111</u>

### SHAREHOLDERS' EQUITY

#### Capital stock (note 4)

Authorized		
3,000,000 Common shares of no par value		
250,000 Restricted Return shares of \$100 par value		
Issued and to be issued		
1,042,012 Common shares.....	101,464	101,464
27,942 (1977 - 3,629) Restricted Return shares.....	2,794,200	362,900

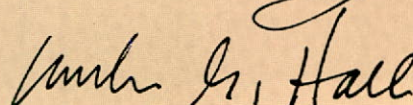
	<u>2,895,664</u>	<u>464,364</u>
Retained earnings (deficit).....	(93,546)	26,540
	<u>2,802,118</u>	<u>490,904</u>
	<u>\$2,887,887</u>	<u>\$634,015</u>

Approved by the Board:

Director



Director





# RANGECO OIL & GAS LTD.

## STATEMENT OF EARNINGS AND DEFICIT

Year Ended December 31, 1978

	1978	1977
<b>Revenue</b>		
Oil and gas sales, net of royalties and mineral taxes .....	\$246,767	\$116,052
Other oil and gas income .....	17,460	1,513
	<u>264,227</u>	<u>117,565</u>
<b>Expenses</b>		
Operating .....	105,578	32,248
General and administrative .....	148,311	23,115
Depletion .....	119,000	12,000
Depreciation .....	3,124	1,456
	<u>376,013</u>	<u>68,819</u>
Earnings (loss) before income taxes .....	<u>(111,786)</u>	<u>48,746</u>
<b>Income taxes</b> (note 3)		
Current .....	11,300	23,400
Alberta Royalty Tax Credit .....	(3,000)	(1,194)
	<u>8,300</u>	<u>22,206</u>
<b>Net earnings (loss)</b> .....	<u>(120,086)</u>	<u>26,540</u>
Retained earnings at beginning of year .....	26,540	—
<b>Retained earnings (deficit) at end of year</b> .....	<u>\$ (93,546)</u>	<u>\$ 26,540</u>
<b>Loss per common share</b> (note 5) .....	<u>\$ (.12)</u>	<u>\$ —</u>

## STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1978

	1978	1977
<b>Working capital derived from</b>		
Operations .....	\$ 2,038	\$ 39,996
Realization of income tax benefits from application of 1977 share issue expenses .....	11,300	23,400
Common shares .....	—	260,500
Restricted Return shares (note 4) .....	2,431,300	362,900
	<u>2,444,638</u>	<u>686,796</u>
<b>Working capital applied to</b>		
Exploration and development costs .....	2,431,300	362,900
Production and other equipment .....	11,555	41,606
Share issue expenses .....	—	297,540
	<u>2,442,855</u>	<u>702,046</u>
<b>Increase (decrease) in working capital</b> .....	<u>1,783</u>	<u>(15,250)</u>
Working capital position at beginning of year .....	(15,247)	3
<b>Working capital position at end of year</b> .....	<u>\$ (13,464)</u>	<u>\$ (15,247)</u>



## **NOTES TO FINANCIAL STATEMENTS**

Year Ended December 31, 1978

### **1. Financing on inception**

In 1977, the Company sold to the public 2,605 units at a price of \$5,000 per unit. Each unit consisted of 100 Common shares of the Company, issued for \$350, less the dealer's commission of \$250 per unit, and a Rangeco Natural Resource Receipt. The Resource Receipt represents the balance (\$4,650) of the proceeds from each unit and evidences the rights of subscribers to receive (a) royalty interests in resource properties, and (b) Restricted Return shares of the Company.

Funds totalling \$12,113,250 were received by a trustee from subscribers for Resource Receipts (2,605 Receipts at \$4,650 each) for purposes of acquiring resource properties and the incurring of exploration and development expenditures on behalf of the subscribers. As of December 31, 1978 \$2,352,277 of such funds are available for future expenditures.

### **2. Accounting policies**

#### **(a) Fixed Assets**

Resource properties were acquired (at a cost of \$6,966,773 to December 31, 1978) on behalf of subscribers under the terms of farm-out arrangements with Ranger Oil (Canada) Limited; these properties were assigned to Rangeco, subject to royalty interests reserved on behalf of subscribers, at no cost to the Company and, accordingly, they have been assigned a nominal value of \$1 in the accompanying balance sheet.

The subscribers incur exploration and development expenditures on the resource properties (see note 1) and receive Restricted Return shares of the Company at the rate of one share for every \$100 of such expenditures; these costs (December 31, 1978 — \$2,794,200; December 31, 1977 — \$362,900) are shown as fixed assets in the Company's balance sheet.

#### **(b) Depletion**

The Company follows the "full-cost method" of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized, and are depleted using the unit of production method based on estimated recoverable oil and gas reserves as determined by Company engineers.

#### **(c) Depreciation**

Depreciation of equipment is provided on a straight-line basis at the rate of 7% per annum.

### **3. Income taxes**

The Company follows the tax allocation method of accounting under which the income tax provision is based upon the earnings reported in the accounts. Current income taxes of \$11,300 and \$23,400 have been charged against earnings for the years ended December 31, 1978 and 1977, respectively; such taxes otherwise payable have been eliminated by the application of share issue expenses incurred in 1977.



Exploration and development expenditures are incurred by subscribers in return for Restricted Return shares of the Company. This arrangement entitles subscribers to the income tax deductions resulting from such expenditures and, accordingly, such deductions are not available to the Company.

#### **4. Capital stock**

##### **(a) Common Shares**

Effective July 21, 1978, the Company's Common shares, issued and unissued, were split on a four-for-one basis and the authorized number of Common shares was increased to 3,000,000.

No dividends may be paid on Common shares until dividends aggregating \$100 per Restricted Return share have been paid. Thereafter, dividends may be paid on Common shares provided that an amount equal to any such dividends is applied to the redemption of Restricted Return shares.

##### **(b) Restricted Return Shares**

As of December 31, 1978 the Company has issued 11,720 and is committed to issue an additional 16,222 Restricted Return shares to subscribers in consideration of the subscribers having incurred \$2,794,200 of exploration and development expenditures (see note 2).

The Restricted Return shares are entitled to one vote per share, and have priority over the Common shares to the extent of the par value in the event of any liquidation, dissolution or winding-up of the Company.

The Restricted Return shares carry no fixed dividends, however, the Company may not pay any dividends on its Common shares until dividends aggregating \$100 per Restricted Return share have been paid; after payment of such aggregate amount of dividends, a Restricted Return share has no further entitlement to dividends.

The Restricted Return shares are not redeemable until dividends aggregating \$100 per Restricted Return share have been paid. Thereafter, the Restricted Return shares will be redeemable by lot at the option of the Company at a redemption price of \$100 per share. The Company is required to apply an amount equal to Common share dividends paid from time to time to the redemption of Restricted Return shares until all such shares have been redeemed.

##### **(c) Key Employee Incentive Share Option Plan**

As of December 31, 1978, 50,000 Common shares of the Company were reserved under a key employee incentive share option plan, of which an option to purchase 10,000 shares was outstanding, exercisable in annual installments of 2,000 shares to November, 1984, at a price of \$5.85 per share.



# RANGECO OIL & GAS LTD.

## Notes (continued)

### 5. Earnings per share

For purposes of earnings per share computation, net earnings of the Company for the year ended December 31, 1977 have been allocated to the Restricted Return shares in accordance with the dividend priorities attaching to each class of shares of the Company. No earnings will be allocated to the Common shares until cumulative earnings amount to \$100 per Restricted Return share.

### 6. Contingent asset

Under the terms of a management agreement Ranger Oil (Canada) Limited pays 100% of well-site equipment costs on the Company's properties during the initial exploration period which costs amounted to \$335,000 at December 31, 1978. If Ranger Canada's total expenditures for well-site equipment to June 30, 1980 are less than \$1.3 million, Ranger Canada is to make a capital contribution to the Company equal to the amount of such deficiency.

### 7. Statutory information

Remuneration paid during 1978 to directors and senior officers of the Company amounted to \$38,750.

## AUDITORS' REPORT

To the Shareholders of  
Rangeeco Oil & Gas Ltd.

We have examined the balance sheet of Rangeeco Oil & Gas Ltd. as at December 31, 1978 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, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada  
March 2, 1979

*Thorne Riddell & Co.*  
Chartered Accountants







