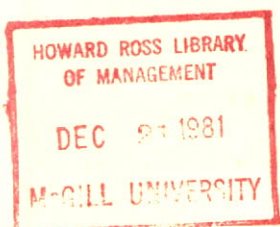


C



Ranchmen's Resources (1975) Ltd.

Annual Report 1975



RANCHMEN'S RESOURCES (1975) LTD.

AND SUBSIDIARY COMPANIES

REPORT OF THE DIRECTORS

To the Shareholders

On behalf of your Board of Directors I am pleased to present herewith the first Report to the Shareholders of Ranchmen's Resources (1975) Ltd.

The Company was formed under the laws of the Province of Alberta on August 8, 1975 by the amalgamation of Cogfac Resources Ltd. and Ranchmen's Resources Ltd. Ranchmen's has undergone several name changes and was one of the pioneer independent companies of the Western Canadian Oil industry dating back to the pre-Leduc era of the early 1940's. Cogfac Resources Ltd. was incorporated on January 31, 1975 to acquire all of the assets (being proven oil and gas reserves) of a Limited Partnership known as Canadian Oil & Gas Fund Ltd. & Company.

The assets of the amalgamated company consist primarily of proven oil and gas reserves and minor interests in undeveloped lands. The value of the Company's reserves is split almost equally between oil and gas.

At March 1, 1976 proven and probable additional oil reserves were estimated at 1.18 million barrels. These reserves are located in the Zama-Virgo area of northwest Alberta and the Pembina, Willesden Green, Provost and Taber areas of southern Alberta. Minor reserves are located in southwest Manitoba.

At the same time, proven and probable additional gas reserves were estimated to be 16.9 billion cubic feet. Nearly all of the gas reserves are situated in central and southern Alberta with minor reserves in southwest Saskatchewan.

During the period following amalgamation, management have directed their efforts towards optimizing the cash flow of the company. To this end, the company has participated in drilling gas development wells in the Matziwin, Princess and Hilda areas of southeast Alberta.

At each of the Taber and Provost properties, an additional well was placed on production increasing the total oil producers from five to six, in each case. In addition, a substantial amount of maintenance work was done in order to maximize profitability. This had led to higher than average expenses for the reporting period.

Recently the company participated in two exploratory tests in north central Alberta. Union et al Cadotte 6-15-82-16 W5M (Ranchmen's interest 2.66%), located northwest of Lesser Slave Lake, was abandoned after failing to encounter commercial production. In the Judy Creek area, Unigas et al Judy 11-13-63-10 has been completed after finding commercial gas in the Viking sand. Ranchmen's retains a 2.8% working interest in this new discovery.

Ranchmen's was a participant in a joint venture sponsored by Canadian Oil & Gas Fund Ltd. In late 1975 this group invested \$1,000,000 in the acquisition of proven gas properties in the Vegreville area of central Alberta and the Princess and Hilda areas of southeastern Alberta. Ranchmen's participated to the extent of 25% of the interests acquired for 25% of the costs. This programme is to be continued in 1976 and the Company has already committed to a further expenditure of \$130,000.

We propose to call a Special General Meeting later in the year for the purpose of obtaining shareholder approval to increase the capitalization of the Company. The Annual Shareholders Meeting will be combined with the Special General Meeting and a date will be announced later this Spring.

FOR THE BOARD OF DIRECTORS



R. J. White
President

RANCHMEN'S RESOURCES (1975) LTD.

AND SUBSIDIARY COMPANIES

Statement of Earnings and Deficit

For the period from date of amalgamation,
August 8, 1975, to December 31, 1975

Income:

Sales of natural gas and crude oil	\$475,466
Interest and dividend income	<u>12,575</u>
	<u>488,041</u>

Expenses:

Production	115,591
General and administrative	93,214
Depreciation	6,998
Depletion	133,248
Amortization	8,632
Interest on long-term debt	122,032
Other	<u>9,590</u>
	<u>489,305</u>
Loss before income taxes	<u>1,264</u>

Income taxes (Note 3):

Current income taxes of a subsidiary company	2,979
Deferred	90,000
Province of Alberta Explorer's Credit	<u>(45,190)</u>
	<u>47,789</u>
Net loss	<u>49,053</u>

Deficit, beginning of period	<u>180,390</u>
Deficit, end of period	<u>\$229,443</u>

See accompanying notes.

Statement of Changes in Financial Position

For the period from date of amalgamation,
August 8, 1975, to December 31, 1975

Funds provided:

Net loss	\$ 49,053
Add items not requiring working capital:	
Depreciation	6,998
Depletion	133,248
Amortization	8,632
Deferred income taxes	90,000
Other	2,247
	<u>241,125</u>
Funds provided from operations	192,072
Adjustment of current portion of long-term debt	345,333
Equity arising on amalgamation (Note 1)	<u>4,789,566</u>
Total funds provided	<u>5,326,971</u>

Funds applied:

Acquisition of net assets on amalgamation less	
working capital of \$512,095 (Note 1)	4,277,471
Purchase of property, plant and equipment	329,101
Advances to Class "B" common shareholders (Note 5)	<u>166,487</u>
Total funds applied	<u>4,773,059</u>
Working capital at end of period	<u>\$ 553,912</u>

See accompanying notes.

RANCHMEN'S RESOURCES (1975) LTD.

AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

Assets

Current assets:

Cash and short-term deposits	\$ 271,346
Accounts and notes receivable	316,868
Marketable securities (current market value \$208,158)	206,845
Total current assets	795,059

Due from Class "B" common shareholders (Note 5)	166,487
---	---------

Property and equipment, at cost less depreciation and depletion:

Oil and gas properties	6,534,485
Production equipment	343,150
	6,877,635
Less: accumulated depreciation and depletion	140,246
	6,737,389

Other assets, at cost:

Incorporation costs	1,658
Drilling and production deposits	12,838
Financing expenses less accumulated amortization of \$8,632	165,203
	179,699

ON BEHALF OF THE BOARD:

 , Director

 , Director

\$7,878,634

Auditors' Report to the Shareholders of Ranchmen's Resources (1975) Ltd.

We have examined the consolidated balance sheet of Ranchmen's Resources (1975) Ltd. as at March 31, 1975, and the consolidated statements of earnings and deficit and changes in financial position for the year ended March 31, 1975. Our examination included a general review of the accounting principles and procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of their operations and the changes in their financial position for the year ended March 31, 1975, in accordance with the accounting principles.

Calgary, Alberta
March 24, 1976

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	\$ 241,147
Total current liabilities	241,147

Long-term debt (Note 2):

Bank loans	2,440,000
Term debenture	400,000
	<u>2,840,000</u>

Deferred income taxes (Note 3)	56,974
--	--------

Shareholders' equity:

Share capital (Note 4):

Preferred shares with a nominal or par value of \$10 per share.

Authorized 400,000 shares; issued 14,500 Series "B"

8% convertible cumulative redeemable preferred shares 145,000

Common shares without nominal or par value. Authorized

1,500,000 shares divided into 900,000 Class "A" common

non-voting shares, 300,000 Class "B" common

non-voting shares and 300,000 Class "C" common

voting shares.

Issued:

667,125 Class "A" common non-voting shares 2,453,792

227,602 Class "B" common non-voting shares 1,138,012

70,262 Class "C" common voting shares 351,312

4,088,116

Contributed surplus 881,840

Deficit (229,443)

Commitment and contingent liability (Note 5)

\$7,878,634

See accompanying notes.

resources (1975) Ltd. and subsidiary companies as of December 31, 1975 and position for the period from date of amalgamation, August 8, 1975, to December 31, 1975. The auditor has examined the accounting records and other supporting evidence

to verify the financial position of the companies as of December 31, 1975 and the results of operations for the period then ended, in accordance with generally accepted accounting principles.

RANCHMEN'S RESOURCES (1975) LTD.

AND SUBSIDIARY COMPANIES

Notes to the Consolidated Financial Statements

December 31, 1975

1. Accounting Policies:

- (a) On August 8, 1975, the company was formed under the laws of the Province of Alberta as a result of an amalgamation between Cogfac Resources Ltd. ("Cogfac") and Ranchmen's Resources Ltd. ("Ranchmen's"). Under the terms of the amalgamation:
- (i) each preferred shareholder of Cogfac received one preferred share of the company for each preferred share held prior to amalgamation;
 - (ii) each Class "A" common shareholder of Cogfac received one Class "C" share of the company for every five Class "A" shares held prior to amalgamation;
 - (iii) each Class "B" common shareholder of Cogfac received one Class "A" share of the company for every five Class "B" shares held prior to amalgamation;
 - (iv) each Class "C" common shareholder of Cogfac received one Class "B" share of the company for every five Class "C" shares held prior to amalgamation; and
 - (v) each common shareholder of Ranchmen's received one Class "A" share of the company for every five common shares held prior to amalgamation.

Details of the amalgamation are as follows:

	Ranchmen's Resources Ltd. and Subsidiaries	Cogfac Resources Ltd.	Total
Net current assets acquired	\$ 734,032	(221,937)	512,095
Investment in Ranchmen's Resources Ltd.	—	1,616,707	1,616,707
Net property, plant and equipment	333,043	4,748,054	5,081,097
Other assets	62,017	161,587	223,604
	<u>1,129,092</u>	<u>6,304,411</u>	<u>7,433,503</u>
Deduct liabilities assumed:			
Bank loan	—	2,094,667	2,094,667
Term debenture	—	400,000	400,000
	<u>—</u>	<u>2,494,667</u>	<u>2,494,667</u>
	<u>\$1,129,092</u>	<u>3,809,744</u>	<u>4,938,836</u>
Amalgamation adjustments:			
Elimination of the net book value of the shares in Ranchmen's Resources Ltd. owned by by Cogfac Resources Ltd.			(1,616,707)
Excess of the fair market value of the shares in Ranchmen's Resources Ltd. over their underlying net book value			<u>1,467,437</u>
Net assets acquired			<u>\$ 4,789,566</u>
Represented by:			
Capital stock			\$ 4,088,116
Contributed surplus			881,840
Deficit			(180,390)
			<u>\$ 4,789,566</u>

Under the purchase method of accounting, Ranchmen's Resources Ltd. was considered the acquired company. Accordingly, the excess of the fair market value of the shares of that company, as determined by the Board of Directors, at date of amalgamation, over the underlying net book value, amounting to \$1,467,437 has been included under the heading "Petroleum and natural gas properties" (to be depleted on the composite unit of production basis) and credited to contributed surplus of the amalgamated company.

Prior to amalgamation, Cogfac Resources Ltd. owned 1,469,734 shares of Ranchmen's Resources Ltd. These shares having an aggregate cost of \$1,616,707 were eliminated upon amalgamation.

- (b) The consolidated financial statements include the accounts of Ranchmen's Resources (1975) Ltd. and its wholly-owned subsidiaries, Ranchmen's Development Ltd. and Ranchmen's Minerals Ltd.
- (c) The company was formed, by way of amalgamation, on August 8, 1975 and has elected December 31 as its fiscal year end. The accompanying consolidated statements of earnings and deficit and changes in financial position therefore include only the results of operations and the changes in financial position since the date of amalgamation and accordingly comparative figures have not been presented.
- (d) The companies follow the full cost method of accounting whereby all costs and expenses of exploring for and developing oil and gas reserves are capitalized and these costs, together with production equipment, are being depleted on the composite unit of production method based on estimated proven reserves as determined by independent engineers.
- (e) The company is amortizing its financing expenses over an eight year period.

2. Long-term Debt:

Although the bank loan, which bears interest at 1% above prime bank rate, is payable on demand, under the agreed terms of repayment, no portion of the loan will be repaid within the next twelve months. The bank loan is secured by an assignment of oil and gas properties under Section 82 of the Bank Act and by a floating charge debenture on the company's assets, both present and future, in the amount of \$1,749,135. This debenture imposes certain restrictions on capital expenditures.

The term debenture bears interest at the rate of prime plus 3% payable semi-annually. No principal payments are required during the first four years with 20%, 25%, 25% and 30% of the principal amount being due respectively, in the following four years. The debenture is secured by assignments of oil and gas properties, and a floating charge on the company's assets, both present and future, subject only to prior banking encumbrances.

3. Deferred Income Taxes:

The accompanying consolidated statement of earnings and deficit shows a provision for income taxes of \$47,789 in relation to a loss before income taxes of \$1,264. The fact that an income tax provision is required despite a pretax loss is explained as follows:

Loss before provision for income taxes		\$ 1,264
Add non-allowable expenses:		
Crown royalties	\$172,695	
Depletion on assets which are not deductible for income tax purposes	<u>94,183</u>	<u>266,878</u>
Income for purposes of deferred income tax calculations:		
Before earned depletion allowances		265,614
Earned depletion allowances		<u>13,414</u>
After earned depletion allowances		<u>\$252,200</u>

4. Capital Stock:

During the period, the company issued shares in its capital stock as follows:

Preferred Shares:

14,500 Series "B" 8% Convertible Cumulative Redeemable Preferred shares upon amalgamation in exchange for 14,500 Series "A" Preferred Shares of Cogfac Resources Ltd.	<u>\$ 145,000</u>
---	-------------------

Common Shares:

195,964 Class "A" Common Non-Voting Shares upon amalgamation and in exchange for 979,822 common shares of Ranchmen's Resources Ltd.	97,982
471,161 Class "A" Common Non-Voting Shares upon amalgamation and in exchange for 2,355,810 Class "B" Common Non-Voting Shares of Cogfac Resources Ltd.	<u>2,355,810</u>
<u>667,125</u>	<u>\$2,453,792</u>
227,602 Class "B" Common Non-Voting Shares upon amalgamation and in exchange for 1,138,012 Class "C" Common Non-Voting Shares of Cogfac Resources Ltd.	<u>\$1,138,012</u>
70,262 Class "C" Common Voting Shares upon amalgamation and in exchange for 351,312 Class "A" Common Voting Shares of Cogfac Resources Ltd.	<u>\$ 351,312</u>

The Series "B" 8% Convertible Cumulative Redeemable Preferred Shares are redeemable at par at the option of the company after the third anniversary from date of issue and after June 30, 1980 at the option of the holder thereof. The Series "B" Preferred Shares are convertible by the holder at certain specified dates into 39,200 Class "C" Common Voting Shares.

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 Cogfac Resources Ltd. 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 and Gas Fund Ltd. In addition, the company has reserved 39,200 Class "C" Common Voting Shares for conversion of the Series "B" Preferred Shares.

5. Commitment and Contingent Liability.

- (a) The company has guaranteed certain banking indebtedness of its Class "B" common shareholders aggregating \$1,030,144 at December 31, 1975. During the period the company advanced \$166,487 to the bank on behalf of its Class "B" common shareholders. Under a shareholders' agreement, dividends will be paid only on Class "B" shares to a maximum of \$1,200,000. Thereafter, no further dividends shall be declared or paid on Class "B" Common, Non-Voting Shares unless and until dividends aggregating \$1,500,000 have been paid on the total of the issued and outstanding Class "A" Common Voting Shares and Class "C" Common Non-Voting Shares and thereafter all common shares shall rank pari passu as to dividends. As of December 31, 1975 no dividends have been paid; however, subsequent to the year end dividends aggregating \$113,801, or 50¢ per share, were paid to the Class "B" common shareholders. These dividends were credited against the amount due from shareholders. (Note 6).
- (b) The company has entered into a 25 year management agreement with a shareholder, Canadian Oil and Gas Fund Ltd., wherein the company will pay reasonable administrative costs and 5% of the cost to the company of property acquired and of shares of corporations acquired.

6. Anti-Inflation Act:

Effective October 14, 1975, the federal government enacted a program of restraint on prices, profits, dividends and compensation. The company does not come under the mandatory aspects of the program other than those provisions pertaining to the payment of dividends, and the company has received the approval of the Anti-Inflation Board for payment of the dividend to the Class "B" common shareholders. (Note 5(a)).

7. Remuneration:

The aggregate management fees and other remuneration paid to directors and senior officers for the period ended December 31, 1975 was \$46,637.

HEAD OFFICE

M180 Three Calgary Place
345 - 4th Avenue S.W.
Calgary, Alberta T2P 0J1
(403) 265-0262

DIRECTORS:

RONALD J. WHITE, Calgary, Alberta
JOHN G. McDONALD, Calgary, Alberta
R. WILLIAM ANDREW, Calgary, Alberta
GORDON R. BONGARD, Toronto, Ontario
WILLIAM A. HOWARD, Calgary, Alberta

OFFICERS:

RONALD J. WHITE, President
JOHN G. McDONALD, Vice President & Treasurer
R. GREGORY POWERS, Secretary

AUDITORS:

Peat, Marwick, Mitchell & Co.
Chartered Accountants
Calgary, Alberta

BANKERS:

Royal Bank of Canada
Main Branch
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT FOR SHARES:

Guaranty Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING:

The Alberta Stock Exchange (Symbol RRL)

SUBSIDIARY AND AFFILIATED COMPANIES:

Ranchmen's Development Ltd.
Ranchmen's Minerals Ltd.

