RANCHMEN'S RESOURCES (1976) LTD.

1984 Annual Report

CORPORATE INFORMATION

Ranchmen's Resources (1976) Ltd. is incorporated under the Companies Act, Alberta and explores for and develops oil and gas reserves.

Head Office

#800, 112 - 4th Avenue S.W.
Calgary, Alberta
T2P 0H3
(403) 265-0262
Telex: 03-821172 CGY

Transfer Agent

Montreal Trust Company
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

Bankers

The Royal Bank of Canada
Main Branch
339 - 8th Avenue S.W.
Calgary, Alberta

Left to right: S. Godard, Receptionist; S. Kelly, Executive Secretary; J. Brackpool, Assistant Secretary.

Auditors

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

Solicitors

Howard, Mackie
#700, 801 - 7th Avenue S.W.
Calgary, Alberta

McDonald & Hayden
#800, 112 - 4th Avenue S.W.
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Alberta Stock Exchange

Directors

R. W. Andrew	– Calgary
J. Canaple	– Paris
J. Le Chevalier	– Paris
W. R. Gulliver	– Calgary
W. A. Howard	– Calgary
J. P. Januard	– Calgary
N. J. Lashuk	– Calgary
J. G. McDonald	– Calgary
A. Le Menestrel	– Paris
W. E. Scott	– Tulsa
H. N. Stewart	– Calgary

Officers

J. G. McDonald, Q.C.
Chairman of the Board

N. J. Lashuk, P.Eng.
President and
Chief Executive Officer

J. P. Januard
Executive Vice President, Finance

K. E. Sully, P.Eng.
Vice President and
Chief Operating Officer

E. K. Kaita, C.A.
Vice President, Treasurer
and Controller

T. D. Brooker, P.Eng.
Vice President, Operations

R. G. Powers
Secretary

J. Brackpool
Assistant Secretary

Conversion Table

1 cubic meter of oil (m^3)	= 6.3 barrels
1 BOPD	= one barrel of oil per day
1 cubic meter of gas (m^3)	= 35.5 cubic feet
10^3m^3	= one thousand cubic meters
1 mcf	= one thousand cubic feet
1 mmcf	= one million cubic feet
1 hectare	= 2.5 acres
1 kilometer	= 0.62 mile

Annual General Meeting

A Special General Meeting and the Annual General Meeting of the Company will be held in the Stephen Room of the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta on Thursday, May 2, 1985 at 3:00 p.m. Calgary time.

HIGHLIGHTS

	1984	1983	Change
Revenue ($ millions)	$ 25.2	$ 19.0	+32%
Cash Flow from Operations ($ millions)	14.0	10.1	+38%
*per share outstanding	3.34	2.33	+43%
per share fully diluted	1.48	1.06	+40%
Net Earnings ($ millions)	4.0	3.6	+13%
per share outstanding	0.56	0.45	+24%
per share fully diluted	0.31	0.25	+24%
Gross Production			
Oil (cubic meters per day)	164	134	+22%
(barrels per day)	1,030	842	+22%
Gas (thousand cubic meters per day)	355	270	+31%
(millions of cubic feet per day)	12.6	9.6	+31%
Proved Reserves			
Oil (thousands of cubic meters)	758	472	+60%
(thousands of barrels)	4,765	2,971	+60%
Gas (millions of cubic meters)	2,094	2,030	+3%
(billions of cubic feet)	74.3	72.0	+3%
Gross Proved plus Probable Reserves			
Oil (thousands of cubic meters)	1,006	939	+7%
(thousands of barrels)	6,326	5,907	+7%
Gas (millions of cubic meters)	2,422	2,358	+3%
(billions of cubic feet)	86.0	83.7	+3%

*after preferred dividends

Left to right: (Seated) J. P. Januard, J. G. McDonald, N. J. Lashuk, A. Le Menestrel, H. N. Stewart. (Standing) R. W. Andrew, W. A. Howard, R. G. Powers. J. Le Chevalier, W. R. Gulliver, J. Canaple. (Missing) W. E. Scott.

1984 was a record year for your company. Revenue was $25.2 million, up 32% over the previous year. Cash flow from operations increased 38% to $14.0 million. After preferred dividends of $2.0 million, cash flow was equivalent to $3.34 per share on an increased number of outstanding shares. On a fully diluted basis, cash flow from operations amounted to $1.48 per share.

Net Income increased 13% to $4.0 million, equivalent to $0.56 per outstanding share, or $0.31 per share on a fully diluted basis.

Prior to 1984, our exploration expenditures and acreage acquisition costs offshore Labrador were capitalized at $55.1 million in a cost centre separate from the on-shore expenditures. We have elected in 1984 to combine the off-shore and on-shore cost centres and to add $20 million to our depletion pool. The $20 million represents the reduction in the value of our off-shore holdings. The change does not affect our cash flow.

The improved financial performance is the result of a 22% increase in the volumes of oil produced during the year to an average of 164 cubic meters (1,030 barrels) per day and a 31% increase in average daily gas production to 355,000 cubic meters (12.6 million cubic feet). The substantial improvement enabled the Company to declare an initial dividend on its ordinary shares of $0.50 per share.

The Company increased its exploration effort in 1984, particularly in Saskatchewan where almost 25% of our capital expenditures occurred.

Our proved and probable additional reserves of oil increased by 7% to 1,006 thousand cubic meters (6.3 million barrels), after deducting the volumes produced during the year. Our proven and probable reserves of gas increased 3% to 2.4 billion cubic meters (86 billion cubic feet).

Proved reserves of oil, as a proportion of our total oil reserves, increased significantly, from 50% in 1983 to 78%. The increase is due to the initiation of an enhanced oil recovery scheme in the Deer Mountain reservoir.

Based upon widely used estimates of future oil and gas prices, the undiscounted value of our oil and gas assets is $624 million. Applying a 20% annual discount before tax (in our case equivalent to about 15% after tax), the present value of our hydrocarbon reserves is $99.3 million. The previous year's values were $646 million and $90 million respectively when higher estimates of future prices were employed.

Our capital expenditures in 1984 were $9.6 million, equivalent to $7 million after all government incentives. We participated in the drilling of 49 wells, 34 of which were completed as oil or gas producers.

Industry Outlook

In spite of the downward pressures on world oil prices and the reduction in the price of gas sold to the United States, the expectations of the industry have improved since the Federal election. Statements made by the elected representatives during the election campaign and subsequently by Government ministers have caused industry spirits to rise. We now await Government action to turn the various statements into reality.

Faced with a large deficit, the Government will be hard pressed to take action that will increase industry cash flow. The likelihood is that the National Energy Program will be changed in a manner that will not reduce the Government's take.

We do expect the Government to do away with the retroactive 25% Federal back-in on frontier lands.

The reduction in the price of gas sold to the United States to a level competitive with indigenous supplies will result in higher sales. However, revenue to gas producers in 1985 will likely be about the same as 1984.

We do expect, however, further volume increases beyond 1985 with corresponding increases in revenue. The overall long-term result from the price changes will be higher revenues for Canada's gas producers.

The industry welcomes the agreement in principle reached between the Federal Government and the Provincial Government of Newfoundland and Labrador. Exploration and development of the offshore potential will be enhanced by the Atlantic Accord.

General

Because our Company is compared to others it is important that all pertinent factors are considered. Two matters that are usually ignored are the tax pools built up by the Company and its level of debt.

We have approximately $66 million in tax pools and thus we do not expect to pay income tax until 1988. The present value of the future taxes saved as a result of the tax pools is $24 million. Many other similar companies with whom we are compared have little or no tax pools.

The other matter concerns the treatment of our 1% and 2% debentures. Many analysts consider the debentures, even though they are convertible into ordinary shares, to be debt and compare them to other companies whose debt is at present interest rates (say 12%). A debt due 16 years from now having an interest cost of 1% *obviously* has a much lower present value than one having a 12% rate. (See Note 5 to the Financial Statements as to other terms of the debentures.)

1985 Company Outlook

We will continue increasing our exploration effort in Alberta and Saskatchewan with the long-term objective of apportioning approximately equally our drilling expenditures between exploration and development. Our exploration staff is being increased to enable us to expand our program.

We also intend to increase our land acquisition activities in both Provinces.

The Company does not intend to participate in any major exploration activities in 1985 on its off-shore Labrador acreage.

The improved performance of the Company is due to the efforts of our dedicated employees. The Board of Directors expresses its thanks to them.

Submitted on behalf of
the Board of Directors

J. G. McDonald
Chairman of the Board

N. J. Lashuk
President and
Chief Executive Officer

LAND

Left to right: P. Long, Land Secretary; W. R. Slipp, Land Manager; C. Remenda, Land Administrator.

Western Canada

At year end 1984, the Company held varying working interests in 232,019 gross hectares (580,048 gross acres) in Western Canada which is equivalent to a net land position of 51,729 net hectares (129,323 net acres). Included in these totals are 48,546 gross hectares (15,312 net hectares), which have not yet been drilled with an estimated value of $3 million.

The Company purchased new rights, primarily through Alberta Crown Sales, amounting to 3,860 gross hectares (9,650 gross acres) or 1,965 net hectares (4,913 net acres). The purchases were made to complement our position offsetting existing Company production or on new prospects which are scheduled for early drilling. An additional 448 gross hectares (1,120 gross acres) or 214 net hectares (535 net acres) in Alberta were earned through farmin arrangements.

As a result of a sizable seismic program and geological review in Southeastern Saskatchewan, the Company, in 1984, purchased the rights underlying 6,514 gross hectares (16,285 gross acres), 3,290 net hectares (8,225 net acres) of land. The lands were acquired at various Crown Sales and through a freehold leasing program.

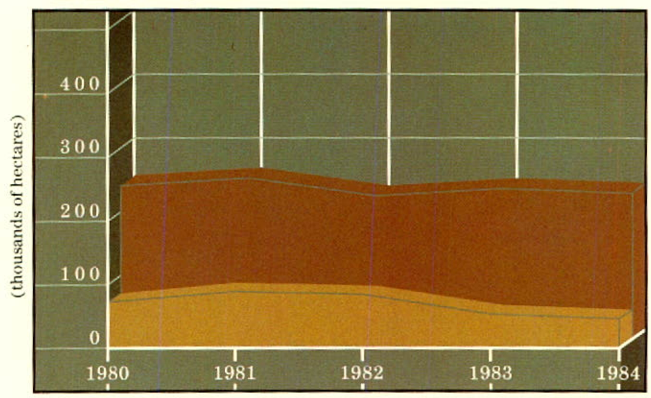
The Company will continue to expand its acreage position in 1985 in both Alberta and Saskatchewan by the acquisition of petroleum and natural gas rights through purchase and farmin.

Eastern Canada

Under the terms of the Federal agreements, one-half of the lands in eight off-shore Labrador Exploration Agreements were relinquished to the Crown at the end of 1984. The Company retains lands around existing discoveries and, based upon almost 75,000 kilometers of seismic, also retains an interest in promising undrilled prospects. The Company chose to surrender its entire interest in two Exploration Agreements that seem to have little hydrocarbon potential. The Company now has an 11¾% interest in 3.55 million gross hectares (8.88 million acres) equivalent to 0.42 million net hectares (1.04 million acres).

Company Land Holdings December 31, 1984	**Gross**		**Net**	
	Hectares	**Acres**	**Hectares**	**Acres**
Alberta	206,078	515,195	45,506	113,765
Saskatchewan	25,351	63,378	6,096	15,240
Manitoba	590	1,475	127	318
New Brunswick	64,888	162,220	21,630	54,075
Labrador - Offshore	3,552,799	8,881,998	415,887	1,039,718
	3,849,706	9,624,266	489,246	1,223,116

LAND HOLDINGS WESTERN CANADA



	1980	1981	1982	1983	1984
(hectares)					
Gross Holdings	244,606	256,575	228,386	240,174	232,019
Net Holdings	71,603	83,617	82,555	58,132	51,729
(acres)					
Gross Holdings	611,515	641,438	570,965	600,435	580,048
Net Holdings	179,008	209,043	206,388	145,350	129,323

PRODUCTION

Left to right: Y. Johnston, Operations Secretary; V. Aarflot, Production Engineer; J. Shand, Production Superintendent; W. Casey, Production Accountant.

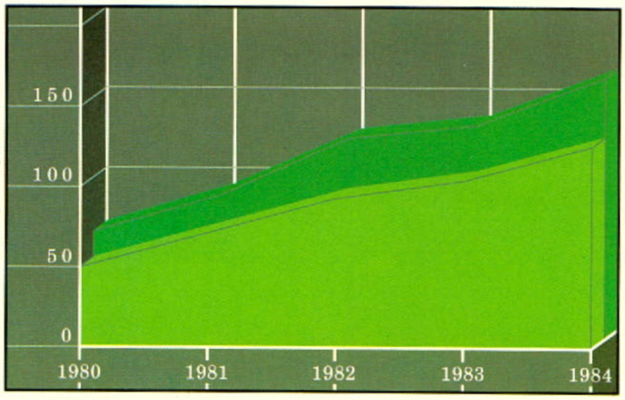
The Company's average daily oil production increased over the previous year by 22% to 164 cubic meters (1,030 barrels) per day from 134 cubic meters (842 barrels) per day. About 53% of the 1984 oil production, equivalent to an average of 87 cubic meters (546 barrels) per day, receives the New Oil Reference Price. Gas production also increased in 1984, to 355,000 cubic meters (12.6 million cubic feet) per day from 270,000 cubic meters (9.6 million cubic feet) per day in 1983, an increase of 31%.

The successful exploration program in Queensdale, Saskatchewan added over 17 cubic meters (110 barrels) per day to the Company's production in December, 1984. The Queensdale oil is a light gravity crude which receives the New Oil Reference Price of $253.55 per cubic meter ($40.28 per barrel). Further drilling and the construction of permanent battery and pipeline facilities are underway.

Further improvements in gas markets are expected in 1985, as a result of more flexible pricing arrangements. In December, 1984, the Company's gas sales for the month averaged 566,000 cubic meters (20.1 million cubic feet) per day. With approximately 75% of the Company's gas reserves under contract, discount price industrial contracts are being entered into only in limited areas. Thus the vast majority of the Company's gas sales are at full prices.

At Deer Mountain water injection commenced in November, 1984, to maintain the reservoir pressure and well productivity. To facilitate management of this project, a Unit was formed with our Company as the operator.

DAILY OIL PRODUCTION

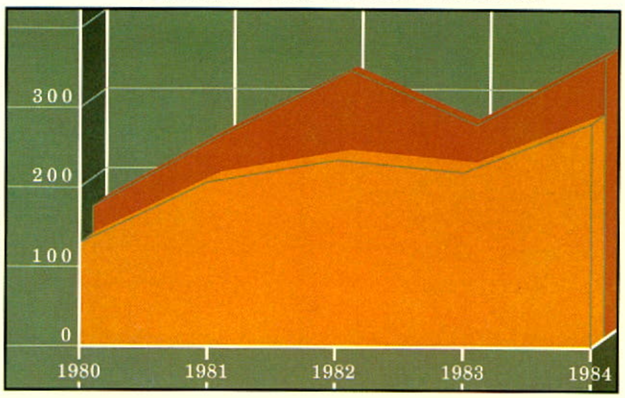


*Gross – Company Share of Production

Net – after Crown, Freehold, and Overriding Royalties

	1980	1981	1982	1983	1984
(m^3 per day)					
Gross*	68	89	125	134	164
Net	46	67	88	98	121
(barrels per day)					
Gross	426	557	786	842	1030
Net	291	423	552	619	762

DAILY GAS PRODUCTION



*Gross – Company Share of Production

Net – after Crown, Freehold and Overriding Royalties

	1980	1981	1982	1983	1984
($10^3 m^3$ per day)					
Gross*	166	254	338	270	355
Net	120	196	224	208	273
(mmcf per day)					
Gross	5.9	9.0	12.0	9.6	12.6
Net	4.3	7.0	7.9	7.4	9.7

Left to right: W. Cook, Exploration Geologist; G. Pendlebury, Exploration Manager; T. D. Brooker, Vice-President, Operations.

Onshore

In 1984 the Company spent \$8.5 million (\$7.4 million after all Government grants) on its onshore capital program with about 30% directed to exploration for new oil reserves. Participation in a total of 49 wells resulted in 19 oilwells, 15 gas wells, nine dry holes, three awaiting completion and three suspended wells. An additional 11 wells were drilled by others on Company lands resulting in three oilwells, one gas well, five dry holes and two suspended wells.

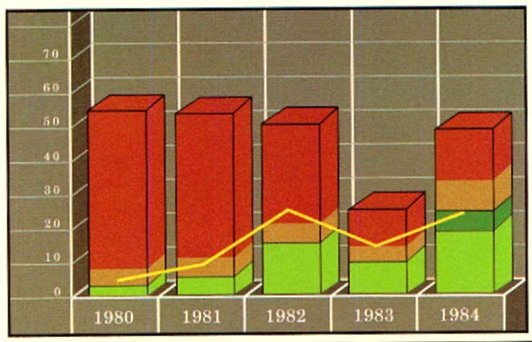
Almost 25% of the Company's 1984 capital expenditures were made in the province of Saskatchewan on seismic, land acquisition and the drilling of six wells. Three successful oil producers were drilled in the Queensdale area. During December, production from these wells in which the Company has a 50% working interest averaged a total of 35 m^3 (220 barrels) of light gravity crude oil per day. Two further Queensdale wells have already been drilled in 1985 and are currently being completed.

Two additional wells in Saskatchewan encountered oil reservoirs and were completed but failed to produce com-

1984 Drilling Summary
Western Canada

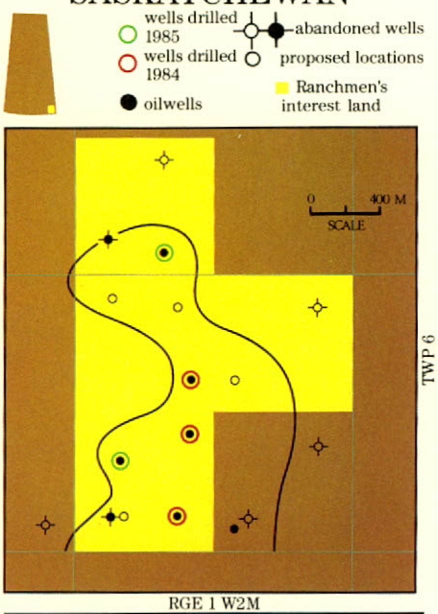
	NORP Oil	Gas	Dry	Other	Net Wells
Alliance	1	3	3	1	6.17
Amisk	1	–	1	–	1.00
Battle	1	1	1	–	2.25
Czar	1	–	–	–	1.00
Jenner	1	–	–	1	0.60
Manyberries	1	–	–	1	1.05
Nevis	1	1	–	1	1.33
Pakowki	1	–	2	–	2.00
Provost	4	1	–	1	2.29
Rosalind	–	2	1	–	3.00
Saskatchewan	4	–	1	1	3.00
Tower South	–	3	–	–	0.26
Wandering River	–	4	–	–	0.04
Willesden Green	3	–	–	–	0.30
TOTAL 49 GROSS WELLS	19	15	9	6	
TOTAL NET WELLS	9.64	5.58	6.52	2.55	24.29

WORKING INTEREST WELLS



	1980	1981	1982	1983	1984
Gas Wells	47	42	29	11	15
Dry Holes	5	6	6	5	9
Other	–	–	–	–	6
Oil Wells – NORP	3	6	16	10	19
Total	55	54	51	26	49
Success Rate %	91	89	88	81	82
Net Wells	4.96	9.89	25.98	14.74	24.29

QUEENSDALE AREA SASKATCHEWAN

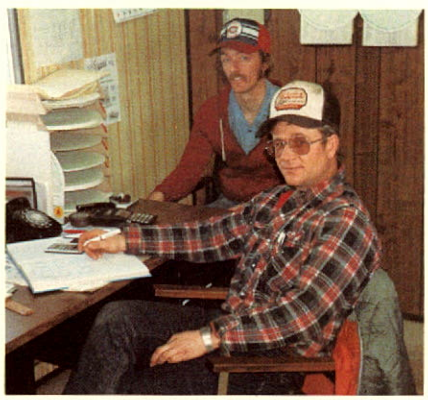


mercial quantities of oil. Based upon the drilling information obtained and additional seismic another well will be drilled on each prospect to produce the discovered oil reserves.

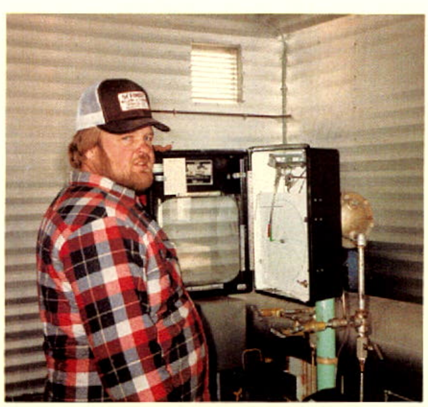
In East Central Alberta the Company continued to develop its existing properties and to look for new opportunities. At Provost four successful development oilwells were drilled which are producing a total of about 16 m^3 (100 barrels) of oil per day. A successful infill well at Amisk is on production at over 8 m^3 (50 barrels) of oil per day. At Czar, a successful exploratory well encountered 6.1 m of net oil pay and produced at about 4 m^3 (25 barrels) of oil per day. A seismic program is being designed to carefully select low risk development drilling locations. A number of wells were drilled in the Alliance area to evaluate lands prior to expiry. One well is currently on production at about 4 m^3 (25 barrels) of oil per day and three wells tested gas at daily rates of 28,000 cubic meters (1.0 million cubic feet), 99,000 cubic meters (3.5 million cubic feet), and 211,000 cubic meters (7.5 million cubic feet).

In the Manyberries area of southern Alberta the Company drilled two successful oilwells currently producing 9 - 10 m^3 (60 barrels) of oil per day. Offset drilling is planned near one of the wells.

The Company plans to continue emphasizing exploration and development of oil prospects in Alberta and Saskatchewan in 1985, and will evaluate opportunities to drill some higher risk – potentially higher reward exploration wells.



Left, B. Grocock, Field Operator; E. Ruud, Field Foreman.



B. Lakusta, Field Operator.

Seismic will continue to be used extensively both as an exploration and development tool. A total of $506,000 was spent in 1984 on about 550 kilometers of specific area geophysical work in Alberta and Saskatchewan.

The size of the Company's exploration effort is being dramatically increased. Additional geological and geophysical staff are being recruited to assist in the increased effort.

Off-shore

There was no drilling activity off-shore Labrador in 1984 by the Labrador Group in which Ranchmen's is a participant. Considerable effort went into geological and geophysical reviews of the area to support the land relinquishment negotiations conducted at year end.

OFFSHORE LABRADOR

Left to right: M. Selleck, Corporate Analyst; K. E. Sully, Vice-President and Chief Operating Officer; T. Lutz, Secretary to President.

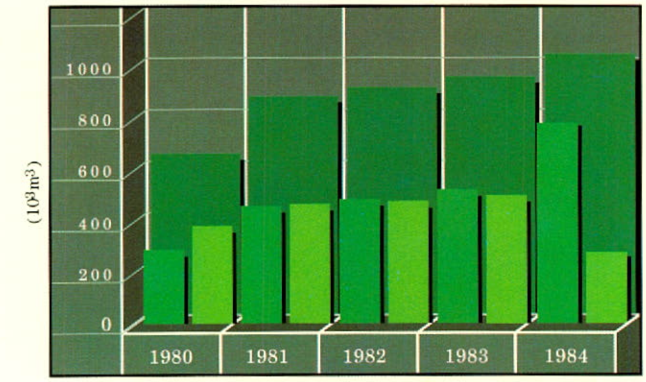
During 1984, the Company more than replaced its production with reserves encountered during our drilling program. The average cost to develop these reserves was $6.70 per equivalent barrel.

The Company's proven oil reserves increased by 60%, yielding a reserve life index of 12.7 years based on 1984 production rates. In addition to reserves added by drilling, very significant revisions in estimates occurred in the Amisk, Zama and Deer Mountain areas.

At Amisk, production from the Basal Quartz pool, discovered in 1983, has been substantially better than anticipated. As a result, the Company's share of proven reserves has been increased by 9,850 cubic meters (62,000 barrels).

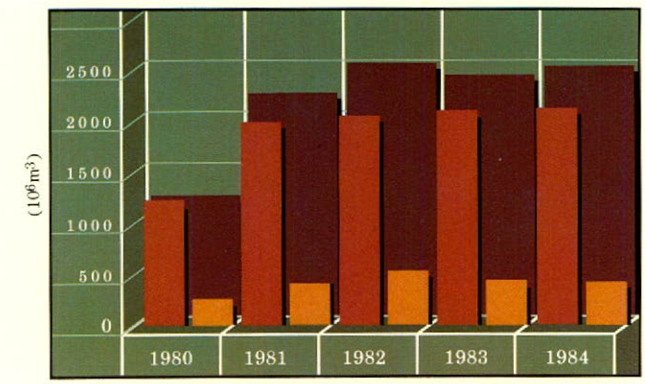
At Zama, the Company has increased the capability of a well in which it has a 45% working interest from 22 to 40 cubic meters per day (140 to 250 BOPD). The Company's share of proven reserves has been increased by 15,900 cubic meters (100,000 barrels).

GROSS OIL RESERVES



		1980	1981	1982	1983	1984
Proven	(10^3m^3)	275	422	451	472	758
Probable		346	429	445	467	248
Total		621	851	896	939	1006
Proven	(thousand barrels)	1730	2654	2836	2971	4765
Probable		2177	2699	2798	2936	1561
Total		3907	5353	5634	5907	6326

GROSS GAS RESERVES



		1980	1981	1982	1983	1984
Proven	(10^6m^3)	1210	1909	1992	2030	2094
Probable		160	313	454	328	328
Total		1370	2222	2446	2358	2422
Proven	(billion cubic feet)	42.9	67.8	70.7	72.0	74.3
Probable		5.7	11.1	16.1	11.7	11.7
Total		48.6	78.9	86.8	83.7	86.0

Early results of our Saskatchewan drilling program show our share of recoverable oil reserves to be in excess of 15,900 cubic meters (100,000 barrels).

The most significant item has been the commencement of a waterflood enhanced recovery at Deer Mountain. The majority of the Company's probable reserves were reclassified as proven. The injection of water is expected to double the recovery of oil in this high reserve, low productivity Beaverhill

Lake reservoir. Approximately half of the waterflood reserves have been deemed to be proven, with the other half remaining classified as probable, until a measurable response to the injection is apparent in the offset wells.

The Company's proven gas reserves increased by only 3%, yielding a reserve life index of 16 years. For the last two years, the Company has de-emphasized the drilling of wells in gas prone areas.

Present Value

The Company's reserves are reviewed annually, and an estimate is made of the cash flow before income tax which can be expected from the production and sale of the reserves of oil and gas in future years. The estimate as at December 31, 1984, was prepared by D&S Petroleum Consultants (1974) Ltd., independent petroleum consultants, reviewing 60% of the Company's reserves, and with the remaining 40% being reviewed internally by the Company's engineering staff.

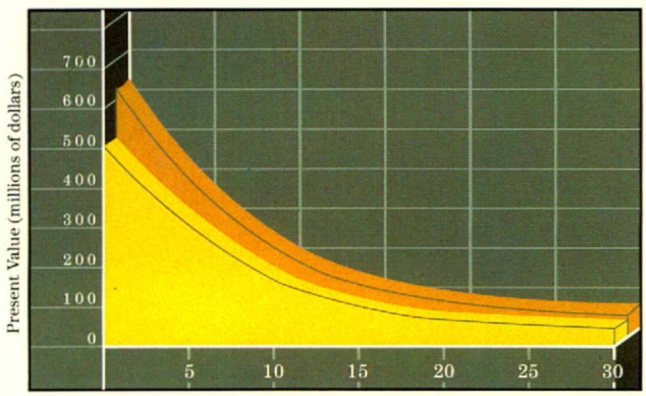
The year-end estimate of the undiscounted value of the Company's future cash flow from its proven plus probable reserves of oil and gas was $624 million. Applying a 20% discount factor, the present value of the Company's proven plus probable reserves is estimated to be $99.3 million before tax.

Because of our high level of exploration and development costs, and $66 million of available tax pools, we do not expect to pay income tax before 1988.

Consolidated Gross Petroleum and Natural Gas Reserves (as at December 31, 1984)

	Crude Oil and NGL		Natural Gas	
	(10^3m^3)	(MSTB)	(10^6m^3)	(BCF)
Proven Reserves, December 31, 1983	472.4	2,971	2,029.5	72.0
Additions:				
Drilling and Workovers	59.3	373	125.6	4.5
Revision in Estimate	285.7	1,797	68.5	2.4
Less: Production	59.8	376	129.6	4.6
Proven Reserves, December 31, 1984	757.6	4,765	2,094.0	74.3
Probable Reserves, December 31, 1983	466.8	2,936	328.2	11.7
Additions (Deletions)	(218.6)	(1,375)	(0.1)	–
Probable Reserves, December 31, 1984	248.2	1,561	328.1	11.7
Total Proven Plus Probable Reserves, December 31, 1984	1,005.8	6,326	2,422.1	86.0

ESTIMATED PRESENT VALUE OF FUTURE CASH FLOW BEFORE INCOME TAX



Discount Percent	0%	15%	20%	30%
Proven plus Probable	624	130	99	66
Proven	506	120	93	64

Left to right: E. K. Kaita, Vice-President, Treasurer and Controller; C. Wonnenberg, Accounting Secretary; K. Allen, Accounting Clerk; S. Dahl, Accounting Clerk.

Revenue from the sale of oil and gas increased by 32% to \$25.2 million from \$19.0 million in the previous year. Cash flow from operations increased 38% to \$14.0 million, equivalent to \$3.34 per share, after preferred share dividends, using the weighted average number of ordinary shares outstanding during the year. If all of the 1% and 2% debentures, warrants, options and preferred shares were converted to ordinary shares, the cash flow from operations would be \$1.48 per share.

Net earnings increased 13% to \$4.0 million equivalent to \$0.56 per share compared to \$0.45 per share last year. On a fully diluted basis, net earnings amounted to \$0.31 per share compared to \$0.25 per share in 1983.

Due to the Alberta Government reduction of the Alberta Royalty Tax Credit from 75% of royalties paid to 50% and a maximum of \$4 million per year to \$2 million per year the Alberta Royalty Tax Credit for the year was reduced by approximately \$900,000.

Depletion increased 64% due to a number of factors. The main factor was the addition of \$20 million to our depletion pool, other factors were increased expenditures for oil and gas properties and increased production. These factors were somewhat offset by increases in reserves.

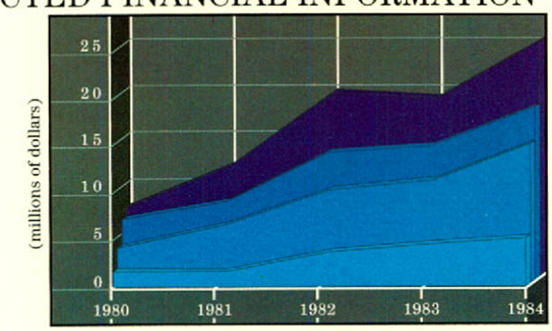
Starting November 1984, TransCanada Pipelines commenced taking prepaid gas under the Topgas I and Topgas II programs. This repayment will be continued for the next eight years.

The Company received \$5 million as proceeds on the issue of share capital during the year. \$3.5 million was a result of the conversion by Total Eastcan Exploration Ltd. of a portion of its 1% convertible debenture for 297,100 Class "A" Non-Voting shares. \$977,000 was received from the exercise of warrants to purchase Class "B" shares of the Company at \$5.80 per share. \$162,500 was received as a result of the exercise of a share purchase warrant indenture for 50,000 Class "A" shares and \$385,000 was received on the exercise of employee stock options.

Total Eastcan Exploration Ltd. is required to convert a portion of its debenture into Class "A" shares as long as the conversion does not bring the Company's Canadian Ownership Rate below 75%. Since the Company's Canadian Ownership Rate during the year was in excess of 75% Total Eastcan Exploration Ltd. converted \$3.5 million of its 1% debenture into 297,100 Class "A" shares. The outstanding debenture has been reduced to \$40.2 million. The Company now holds a Certificate of Canadian Ownership Rate and Control Status specifying a 75% rate.

The Company spent \$7.4 million (net of grants) on onshore capital expenditures which were financed entirely through cash flow from operations.

SELECTED FINANCIAL INFORMATION



(thousands of dollars)					
Sales of Natural Gas & Crude Oil	\$7,200	\$11,909	\$19,713	\$19,039	\$25,213
Annual Increase	42.2%	65.4%	65.5%	-3.4%	32.4%
Production Revenue	\$5,155	\$7,968	\$13,013	\$13,828	\$17,929
Annual Increase	45.5%	54.6%	63.3%	6.3%	29.7%
Cash Flow from Operations	\$3,233	\$5,484	\$9,256	\$10,123	\$14,001
Annual Increase	75.3%	69.6%	68.8%	9.4%	38.3%
Net Earnings	\$410	\$346	\$2,722	\$3,589	\$4,044
Annual Increase	-35.3%	-15.6%	686.7%	31.9%	12.7%

Late in the year the Company acquired an inhouse computer which together with the software added to expenditures for leasehold improvements and office equipment for the year.

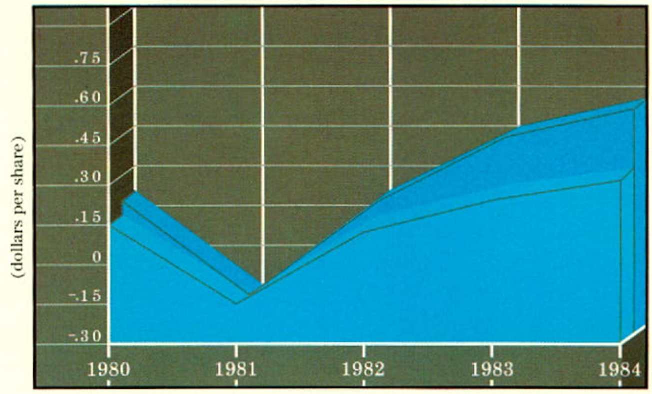
The Company increased its percentage ownership of Ranchmen's Exploration and Development Partnership (1976) from 94% to 95% by the acquisition of 5 units and Ranchmen's Exploration and Development Partnership (1977) from 96% to 99% by the acquisition of 53 units. The total cost of the acquisitions was $245,106.

During the year, the Company modified its full cost method of accounting for oil and gas properties whereby a single cost centre was established for Canada. Under the method previously used, separate cost centres were established for onshore Canada and offshore Labrador shelf.

Under the current accounting policy, the expenditures related to the undeveloped offshore Labrador Shelf are segregated and the costs are not depleted. During the year, the Company determined that these undeveloped properties were impaired, and accordingly $20,000,000 was added to the depletion pool. The Company's carrying value of the undeveloped offshore Labrador Shelf now amounts to $34,658,142 (1983 -$55,125,106) which is not subject to depletion.

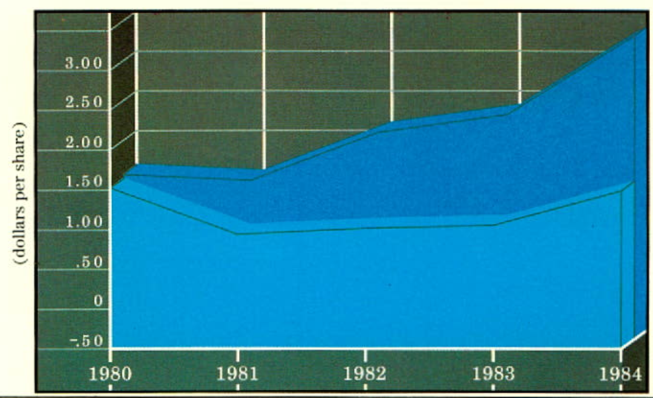
In November the Board of Directors approved a dividend policy, and declared a 50¢ per share dividend to all holders of ordinary shares of record on December 10 payable January 2, 1985. The dividend amounted to $2,030,823.

EARNINGS PER SHARE



	1980	1981	1982	1983	1984
Earnings (loss) per share	.20	(.15)	.20	.45	.56
Fully diluted earnings (loss) per share	.15	(.15)	.13	.25	.31

CASH FLOW PER SHARE



	1980	1981	1982	1983	1984
Cash Flow From Operations per share (after preferred dividends)	1.58	1.50	2.10	2.33	3.34
Fully diluted*	1.53	.97	1.02	1.06	1.48

*The calculation of cash flow per share, fully diluted assumes the conversion of all securities and the exercise of all stock options and warrants.

RANCHMEN'S RESOURCES (1976) LTD.

CONSOLIDATED BALANCE SHEET

December 31, 1984
(with comparative figures for 1983)

	1984	1983
Assets		
Current assets:		
Cash and short-term deposits	**$ 5,771,489**	2,368,563
Accounts receivable	**5,021,801**	6,453,215
Total current assets	**10,793,290**	8,821,778
Property and equipment, at cost less depreciation and depletion (Note 2):		
Oil and gas properties	**123,047,375**	117,375,506
Production equipment	**11,959,858**	10,673,170
Leasehold improvements and office equipment	**754,115**	438,655
	135,761,348	128,487,331
Less accumulated depreciation and depletion	**21,279,894**	15,830,919
	114,481,454	112,656,412
Other assets:		
Unamortized financing costs	**733,216**	879,004
Sundry, at cost (Note 3)	**952,391**	623,820
	1,685,607	1,502,824

On behalf of the Board:

, Director

, Director

	$126,960,351	122,981,014

See accompanying notes.

	1984	1983
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,451,783**	3,701,727
Dividends payable	**2,030,823**	–
Current portion of income debentures (Note 4)	**2,000,000**	2,000,000
Total current liabilities	**6,482,606**	5,701,727
Income debentures (Note 4)	**–**	2,000,000
Convertible debentures (Note 5)	**42,376,824**	45,913,750
Prepayment for future gas production	**5,664,911**	5,821,402
Deferred income taxes	**13,763,074**	9,666,074
Minority interests	**857,135**	1,115,372
Shareholders' equity:		
Share capital (Note 6):		
Preferred shares with a nominal or par value of $25 per share		
Issued: 825,128	**20,628,200**	20,628,200
Shares without nominal or par value		
Issued: Class "A" Non-Voting – 1,574,761 (1983 - 1,196,411)	**14,066,650**	10,252,082
Class "B" Non-Voting – 2,402,692 (1983 - 2,187,643)	**20,174,779**	18,927,836
Class "C" Voting – 63,014	**285,646**	285,646
Class "D" Voting – 50,000	**226,652**	226,652
	55,381,927	50,320,416
Contributed surplus	**1,737,590**	1,737,590
Retained earnings	**696,284**	704,683
	57,815,801	52,762,689
	$126,960,351	122,981,014

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Ranchmen's Resources (1976) Ltd. as at December 31, 1984 and the consolidated statements of earnings and retained earnings 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, 1984 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, after giving retroactive effect to the change in accounting for oil and gas properties described in Note 2, on a basis consistent with that of the preceding year.

Calgary, Canada
March 7, 1985

Peat, Marwick, Mitchell & Co.
Chartered Accountants

RANCHMEN'S RESOURCES (1976) LTD.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1984
(with comparative figures for 1983)

	1984	1983
Revenues:		
Sales of natural gas and crude oil	**$25,213,036**	19,039,161
Less royalties and PGRT	**7,283,663**	5,211,009
Production revenue	**17,929,373**	13,828,152
Other	**637,175**	289,560
	18,566,548	14,117,712
Expenses:		
Operating	**2,970,927**	3,088,504
General and administrative	**2,614,198**	2,304,622
Depreciation	**647,000**	510,000
Depletion (Note 2)	**4,800,000**	2,933,000
Interest on debentures, including amortization of financing costs	**961,206**	1,066,693
	11,993,331	9,902,819
Earnings before the following	**6,573,217**	4,214,893
Minority interest	**266,460**	173,643
Earnings before income taxes	**6,306,757**	4,041,250
Income taxes (Note 5):		
Current, net of Alberta Royalty Tax Credit	**(1,834,231)**	(2,291,782)
Deferred	**4,097,000**	2,744,000
	2,262,769	452,218
Net earnings	**4,043,988**	3,589,032
Retained earnings (deficit), beginning of year	**704,683**	(862,785)
Dividends on preferred shares	**(2,021,564)**	(2,021,564)
Dividends on ordinary shares	**(2,030,823)**	–
Retained earnings, end of year	**$ 696,284**	704,683
Earnings per share	**$ 0.56**	0.45
Fully diluted earnings per share	**$ 0.31**	0.25

See accompanying notes.

RANCHMEN'S RESOURCES (1976) LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1984
(with comparative figures for 1983)

	1984	1983
Source of funds:		
Operations:		
Net earnings	**$ 4,043,988**	3,589,032
Add items not requiring working capital:		
Depreciation	**647,000**	510,000
Depletion	**4,800,000**	2,933,000
Amortization of financing costs	**146,559**	173,678
Deferred income taxes	**4,097,000**	2,744,000
Minority interest	**266,460**	173,643
Working capital provided from operations	**14,001,007**	10,123,353
Repayment of outstanding mortgage	**–**	19,039
Proceeds from redemption of shares in Canadian Oil & Gas Fund Ltd.	**–**	400,000
Prepayment for future gas production	**–**	853,273
Proceeds on issue of 2% convertible debenture	**–**	2,200,000
Proceeds on issue of share capital	**5,061,511**	253,100
Total funds provided	**19,062,518**	13,848,765
Use of funds:		
Reduction of income debenture	**2,000,000**	2,000,000
Reduction of 1% convertible debenture	**3,536,926**	–
Additions of oil and gas properties and equipment, net of Petroleum Incentive grants of $2,603,122 (1983 - $7,922,401)	**6,958,557**	9,730,248
Leasehold improvements and office equipment	**315,460**	1,100
Dividends on preferred shares	**2,021,564**	2,021,564
Dividends on ordinary shares	**2,030,823**	–
Reduction of prepayment for future gas production	**156,491**	–
Distributions to minority interests	**279,591**	192,537
Acquisition of partnership interests	**245,106**	–
Sundry	**327,367**	385,236
Total funds used	**17,871,885**	14,330,685
Increase (decrease) in working capital	**1,190,633**	(481,920)
Working capital, beginning of year	**3,120,051**	3,601,971
Working capital, end of year	**$ 4,310,684**	3,120,051

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1984

Ranchmen's Resources (1976) Ltd. is incorporated under the Companies Act, Alberta and explores for and develops oil and gas reserves.

1. Significant accounting policies:

a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company, its subsidiaries and its interests in limited partnerships.

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 and Company engineers. The 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.

The Company applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves, at current prices and costs, plus the estimated fair market value of unevaluated properties.

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 to ten year period.

e) Earnings per share:

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

f) Reclassification:

Certain comparative numbers have been reclassified to conform to the 1984 presentation.

2. Change in accounting policy:

During the year, the Company modified its full cost method of accounting for oil and gas properties by establishing a single cost centre for Canada. Under the method previously used, separate cost centres were established for onshore Canada and offshore Labrador Shelf.

Under the current policy, expenditures related to the undeveloped offshore Labrador Shelf are segregated and the costs are not depleted. During the year, the Company determined that these undeveloped properties were impaired, and accordingly $20,000,000 was added to the depletion pool. The Company's carrying value of the undeveloped offshore Labrador Shelf now amounts to $34,658,142 (1983 - $55,125,106) which is not subject to depletion.

As a result of these changes, the depletion for 1984 was increased by $1,216,000 and the Company did not recognize a write-down of undeveloped properties in the offshore Labrador Shelf of $20,000,000. Consequently, net income for 1984 was increased by $9,958,000, net of deferred income taxes of $8,826,000.

The change in policy had no effect on the 1983 results.

3. Sundry assets:

	1984	1983
Mortgage receivable	**$175,000**	175,000
Employee loans re stock options, non-interest bearing for first five years	**713,969**	386,273
Other	**63,422**	62,547
	$952,391	623,820

4. Income debentures:

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 final debenture matures on December 22, 1985. 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 with accrued interest to the date of redemption.

5. Convertible debentures:

	1984	1983
1%, unsecured convertible debenture, due 2001	**$40,176,824**	43,713,750
2%, unsecured convertible debenture, due 2001	**2,200,000**	2,200,000
	$42,376,824	45,913,750

The 1% and 2% convertible debentures are payable to Total Eastcan Exploration Ltd. The debenture holder has an irrevocable obligation within two years of the following events to:

1) convert a portion of the convertible debentures when there is an excess in the Canadian Ownership Rate above the level which entitles the Company to receive maximum Petroleum Incentive grants; and

2) convert all of the convertible debentures if the Company's directors pass a resolution by a two thirds majority that it is no longer in the Company's best interest to participate in the benefits of the National Energy Program. The conversion price shall be $12.50 per share on the 1% debenture and $9.25 per share on the 2% debenture subject to adjustment made pursuant to anti-dilution provisions. During the year, $3,536,926 of the 1% debenture was converted into 297,100 Class "A" shares.

6. Share capital:

The authorized share capital of the Company consists of:

a) 8,000,000 First Preferred Shares with a nominal or par value of $25 per share;
b) 15,700,000 Class "A" Non-Voting Shares, without nominal or par value;
c) 50,000,000 Class "B" Non-Voting Shares, without nominal or par value;
d) 63,014 Class "C" Voting Shares, without nominal or par value; and
e) 50,000 Class "D" Voting Shares, without nominal or par value.

The following changes have been made in share capital:

	1984		1983	
	Shares	**Amount**	**Shares**	**Amount**
Class "A" Non-Voting:				
Conversion to Class "B"	**(4,300)**	**$ (37,675)**	(2,797)	$ (928)
Pursuant to officers' and employee options	**35,550**	**152,817**	35,800	162,672
Exercise of warrants	**50,000**	**162,500**	–	–
Conversion of 1% debenture	**297,100**	**3,536,926**	–	–
	378,350	**$3,814,568**	33,003	$161,744
Class "B" Non-Voting (constrained to citizens or residents of Canada):				
Conversion from Class "A"	**4,300**	**$ 37,675**	2,797	$ 928
Pursuant to officers' and employee options	**42,267**	**232,072**	15,267	87,633
Exercise of warrants	**168,482**	**977,196**	482	2,795
	215,049	**$1,246,943**	18,546	$ 91,356

6. Share capital — continued:

The Series A Preferred Shares are convertible at the option of the holder on the following basis:

(i) from July 27, 1981 to July 31, 1986 into 2.703 Class "B" Non-Voting Shares; and

(ii) from August 1, 1986 to July 31, 1991 into 2.439 Class "B" Non-Voting Shares.

The Series A Preferred Shares are redeemable as follows:

August 1, 1983 to July 31, 1986	$27.45
August 1, 1986 to July 31, 1987	27.00
August 1, 1987 to July 31, 1988	26.50
August 1, 1988 to July 31, 1989	26.00
August 1, 1989 to July 31, 1990	25.50

and thereafter at the par value of $25.00.

Share option agreements:

The following tables summarize transactions during the year under the employee stock option plan:

	1984	1983
Class "A" Non-Voting Shares:		
Outstanding, beginning of year	**53,950**	94,550
Exercised	**35,550**	35,800
Cancelled	**6,400**	4,800
Outstanding, end of year	**12,000**	53,950

These options are exercisable at $4.61 and expire on December 31, 1985.

	1984	1983
Class "B" Non-Voting Shares:		
Outstanding, beginning of year	**90,750**	–
Granted	**74,500**	109,050
	165,250	109,050
Exercised	**42,267**	15,267
Cancelled	**3,000**	3,033
Outstanding, end of year	**119,983**	90,750

There are options outstanding for 51,483 shares exercisable at $5.74 expiring December 31, 1985; 4,500 exercisable at $4.25 expiring December 31, 1986; 6,000 exercisable at $7.09 expiring December 31, 1986; and 58,000 exercisable at $5.06 expiring December 31, 1986.

There are warrants outstanding to purchase 200,000 Class "B" non-voting shares at a price of $15.00 per share exercisable prior to December 31, 1985.

7. Income taxes:

Total income taxes amounted to $2,262,769 (1983 - $452,218) which is less than the amount of $2,964,000 (1983 - $1,936,000) computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

7. Income taxes — continued:

	1984	1983
Computed "expected" tax expense	**$ 2,964,000**	1,936,000
Increase (decrease) in taxes resulting from:		
Petroleum and Gas Revenue Taxes	**754,000**	483,000
Payments to the Crown	**1,783,000**	1,409,000
Provincial rebates and credits	**(1,834,000)**	(2,295,000)
Resource allowance	**(2,069,000)**	(1,446,000)
Allowance for earned depletion	**—**	(298,000)
Interest on income debentures	**136,000**	202,000
Depletion on non-tax base assets	**589,000**	560,000
Investment tax credits	**(82,000)**	(89,000)
Other - net	**21,769**	(9,782)
	$ 2,262,769	452,218

8. Remuneration of directors and senior officers:

The aggregate remuneration paid to directors and senior officers for the year ended December 31, 1984 was approximately $969,000 (1983 - $679,000).

SELECTED FIVE YEAR DATA
(Dollars in thousands, except per share data)

	1984	1983	1982	1981	1980
Sales of natural gas and crude oil	**$25,213**	19,039	19,713	11,909	7,200
Royalties – Crown	**3,794**	2,942	3,900	2,394	1,420
– freehold & overriding	**1,885**	1,261	1,477	908	625
– PGRT and IORT	**1,605**	1,008	1,323	639	–
Production revenue	**17,929**	13,828	13,013	7,968	5,155
Other	**637**	290	276	1,122	372
	18,566	14,118	13,289	9,090	5,527
Operating costs	**2,971**	3,089	2,780	1,728	1,028
General and administrative costs	**2,614**	2,305	3,100	1,717	904
Interest expense	**814**	893	1,033	980	754
Current income taxes net of Alberta Royalty Tax Credit	**(1,834)**	(2,292)	(2,880)	(819)	(392)
	4,565	3,995	4,033	3,606	2,294
Cash flow from operations	**14,001**	10,123	9,256	5,484	3,233
– Per share, after preferred dividends	**$ 3.34**	2.33	2.10	1.50	1.58
– Per share, fully diluted*	**$ 1.48**	1.06	1.02	0.97	1.53
Depreciation, depletion and amortization	**5,594**	3,617	4,163	3,149	1,766
Deferred income taxes	**4,097**	2,744	2,167	1,800	1,050
Minority interest	**266**	173	204	73	7
Other items	**–**	–	–	116	–
Net earnings	**4,044**	3,589	2,722	346	410
Preferred dividends	**2,022**	2,022	2,022	871	–
Residual for ordinary shares	**2,022**	1,567	700	(525)	410
Earnings (loss) per share	**$ 0.56**	0.45	0.20	(0.15)	0.20
Fully diluted earnings (loss) per share	**0.31**	0.25	0.13	(0.15)	0.15

*The calculation of cash flow per share, fully diluted, assumes the conversion of all securities and the exercise of all stock options and warrants.

	1984	1983	1982	1981	1980
Working capital	**4,311**	3,120	3,602	8,659	2,568
Drilling expenditures	**6,959**	8,530	12,532	6,590	3,631
Property, plant and equipment	**114,481**	112,656	106,368	97,764	31,657
Income debenture (max. 7½%)	**2,000**	4,000	6,000	8,000	10,000
1% Convertible debenture	**40,176**	43,714	43,714	43,714	–
2% Convertible debenture	**2,200**	2,200	–	–	–
Ordinary shares outstanding	**4,090**	3,497	3,446	3,416	2,769
Convertible Preferred shares outstanding	**825**	825	825	825	–
Share trading price					
Class "A" Non-Voting Shares					
– high	**7.875**	10.00	8.25	10.125	18.25
– low	**5.00**	6.00	3.40	3.75	7.00
Class "B" Non-Voting Shares					
– high	**7.75**	8.375	7.25	–	–
– low	**4.60**	4.70	5.625	–	–
Gross Production					
Oil (m^3 per day)	**164**	134	125	89	68
Gas (10^3m^3 per day)	**355**	270	338	254	166
Gross Reserves (proven plus probable)					
Oil (thousands of cubic meters)	**1,006**	939	896	851	621
Gas (millions of cubic meters)	**2,422**	2,358	2,446	2,222	1,370

RANCHMEN'S RESOURCES (1976) LTD.