ULSTER PETROLEUMS LTD.

ULSTER

ANNUAL REPORT

1981

DIRECTORS

Mr. D. C. Traxel — Calgary, Alberta (*)
Mr. R. A. Hayes — Calgary, Alberta
Mr. B. A. Macdonald — Calgary, Alberta (*)
Mr. A. Bryce Cameron — Victoria, B.C.
Dr. A. Cree — West Sedona, Arizona, U.S.A.
Mr. D. C. Martin — Calgary, Alberta(*)

(*) Members of Audit Committee

OFFICERS

Donne C. Traxel — President and Treasurer
Robert A. Hayes — Vice President
Robert Woima — Controller
Anne C. Ries — Secretary

OPERATING MANAGEMENT

Ray Schwartzenberger — Exploration Manager
Cedric Stapleton — Exploration Manager
John Frank — Operations Manager

SHAREHOLDERS' MEETING

The Annual General Meeting of the Shareholders of Ulster Petroleums Ltd. will be held in Room 204, of the International Hotel in Calgary, Alberta on Friday, June 25, 1982 at 10:00 A.M. (Calgary time).

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1981 FINANCIAL HIGHLIGHTS

	1981	1980
Oil & gas production	**$ 1,549,000**	$1,577,000
Working Capital Provided From Operations	**$ 878,000**	$1,034,000
Net Earnings (Loss)	**$ (377,000)**	$ (993,000)
Per Share	**$ (0.03)**	$ (0.11)
Shares outstanding	**12,154,060**	9,397,050
OPERATIONS		
Natural Gas Production — mcf	**587,393**	608,522
Daily average — mcf	**1,609**	1,667
Crude Oil Production — barrels	**22,568**	18,860
Daily average — barrels	**61**	51
Additions to Alberta Land Holdings		
Gross Acres	**134,000**	127,700
Net Acres	**27,000**	12,800
Wells drilled	**33**	48
Exploration expenditures	**$10,109,000**	$8,351,000

COMMON STOCK TRADING INFORMATION

Toronto Stock Exchange

	Price Range High	Price Range Low	No. of Shares Traded
1982			
First quarter	**$2.48**	**$1.05**	**1,722,372**
1981			
First quarter	$5.875	$4.50	1,547,162
Second quarter	$6.875	$5.00	2,288,151
Third quarter	$6.375	$1.90	2,060,057
Fourth quarter	$3.30	$2.05	3,219,770
1980			
First quarter	$7.25	$3.35	5,839,632
Second quarter	$7.00	$4.85	2,153,706
Third quarter	$7.50	$4.40	2,511,338
Fourth quarter	$5.25	$4.00	2,355,181

REPORT TO SHAREHOLDERS

As you are no doubt painfully aware if you have picked up a newspaper or followed the performance of oil and gas stocks on the Toronto Stock Exchange, 1981 was definitely not a good year for the Oil Industry in Canada (irrespective of your company's country of origin). Since the Industry's problems have already been analyzed at length by a host of experts on the topic, my comments will be very direct and to the point and deal exclusively with the specific impact of the current situation on Ulster and how we are/or propose to cope with it.

What Is Ulster's Current Financial Position?

A fully subscribed Rights Offering in February 1981 which netted $7,267,000 and a private placement of common shares in July 1981 which netted $3,334,000 have allowed Ulster to maintain 1981 exploration activities at record levels and still enter 1982 without any long-term debt. In addition, the Directors of Ulster have recently approved a 1982 capital budget of approximately $7,000,000 which the Company also anticipates financing from available non-debt sources.

Accordingly during 1982, Ulster will continue to adhere to a financial philosophy based on financing exploration activities on a "cash basis" and reserving available lines of credit for prospective production related investments.

How Have Ulster's Exploration Policies Been Affected By Recent Developments?

In recent years Ulster has followed an exploration philosophy which has placed primary emphasis on the assembly of land positions on which future long-term growth can be built. To this end, Ulster has once again devoted a substantial portion of its 1981 exploration budget to the acquisition of an average 20% working interest in excess of 130,000 gross acres of oil and gas rights in Alberta.

While many companies have severely curtailed expenditures of this type, Ulster does not propose to follow this lead. Yes — we will be more selective in our choice of lands but — No — we will not cease such activities even though these investments have a short-term negative impact on current earnings as discussed elsewhere in this report.

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What are Ulster's Current and Projected Production Revenues?

Although the Company's production activities provide a positive cash flow after all operating and overhead expenditures, these totals are substantially below corporate expectations. The frustrating part of this situation, however, is not that we cannot find the reserves but the fact that once we have found them they cannot be sold. Furthermore, this problem is expected to become even more acute during the next few years as the Industry faces ever increasing cut-backs on wells which are already on production.

In the opinion of management, a meaningful solution to this problem cannot be achieved in the short-term through the drilling of new wells — no matter how successful a company is. Accordingly, Ulster intends to actively pursue selected production acquisitions which could bring the company's production results more into line with current expectations and also compliment existing land holdings.

What Is Ulster's Canadian Control Status?

Ulster is effectively 100% Canadian owned and controlled. Accordingly, the Company will receive the maximum benefits provided for under the announced government incentive programs.

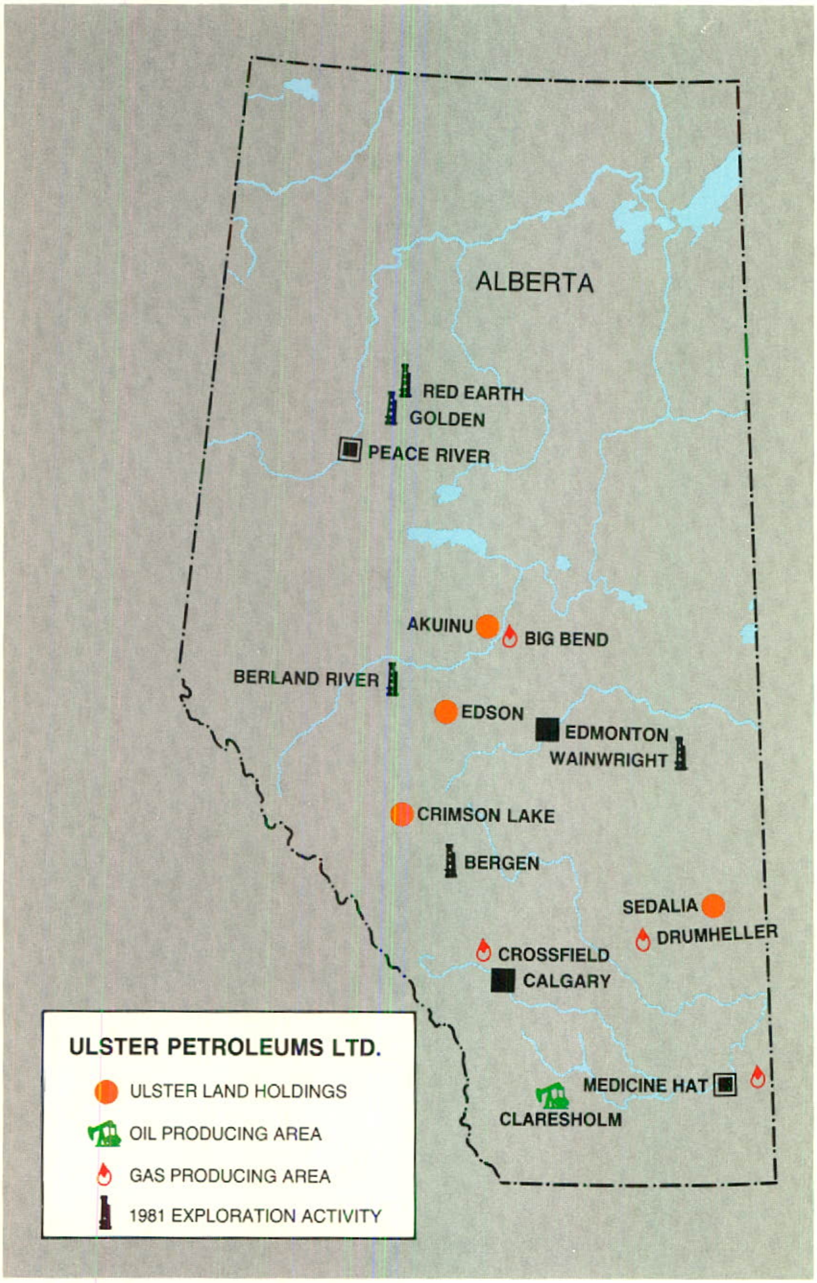
In closing, I would like to state that Management greatly appreciates the confidence and support received from all of Ulster's shareholders and staff during the past year. This support has enabled us to effectively deal with the challenges of today and look forward to the "promised" rewards for the future.

On Behalf of The Board of Directors

D. Traxel

Donne C. Traxel
President

EXPLORATION AND DEVELOPMENT ACTIVITY



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During 1981, Ulster participated in the drilling of 33 gross wells with an average working interest of 18%. In addition, the Company significantly expanded its land base for future exploration activity by purchasing a 20% average working interest in 43,900 gross acres at Alberta land sales and earning an equivalent net working interest in a further 90,000 gross acres through its drilling activities. Details of the Company's major exploration and development activities and land holdings are summarized below.

SUMMARY OF WELLS DRILLED

	1981	1980
EXPLORATORY		
Oil	**3**	6
Gas	**7**	8
Dual	**3**	2
Dry	**5**	8
TOTAL	**18**	24
Average Working Interest	**(25.2%)**	(17.5%)
DEVELOPMENT		
Oil	**10**	17
Gas	**2**	4
Dry	**3**	3
TOTAL	**15**	24
Average Working Interest	**(8.9%)**	(20.7%)

NET PROVEN PLUS PROBABLE RESERVES

	1981	1980
Oil — barrels	**917,000**	971,000
— m^3	**146,000**	154,300
Gas — bcf	**9.7**	8.2
— 10^3m^3	**273,000**	231,000
Sulphur — long tons	**53,465**	33,682

Golden/Red Earth Area

As noted in our 1980 Annual Report, the Golden/Red Earth Area of Alberta was selected by Ulster for a major exploration initiative due to its highly oil prone nature and the overall level of Industry exploration activity within the immediate area. Accordingly, it is very gratifying to be able to report that during the first fifteen months of this program Ulster has:

- purchased and/or earned a 17.5 to 35% working interest in over 100,000 gross acres of lands in this area;
- shot and/or earned an equivalent working interest in over 2,000 miles of exclusive seismic data; and
- drilled eight exploratory wells.

The results obtained from these initial test wells are summarized as follows:

- One well was completed as a Granite Wash oil well. This well was perforated and on an extended production test flowed in excess of 700 barrels of oil per day. Due to accessibility problems, however, this well will not be put onto full-time commercial production before next winter.

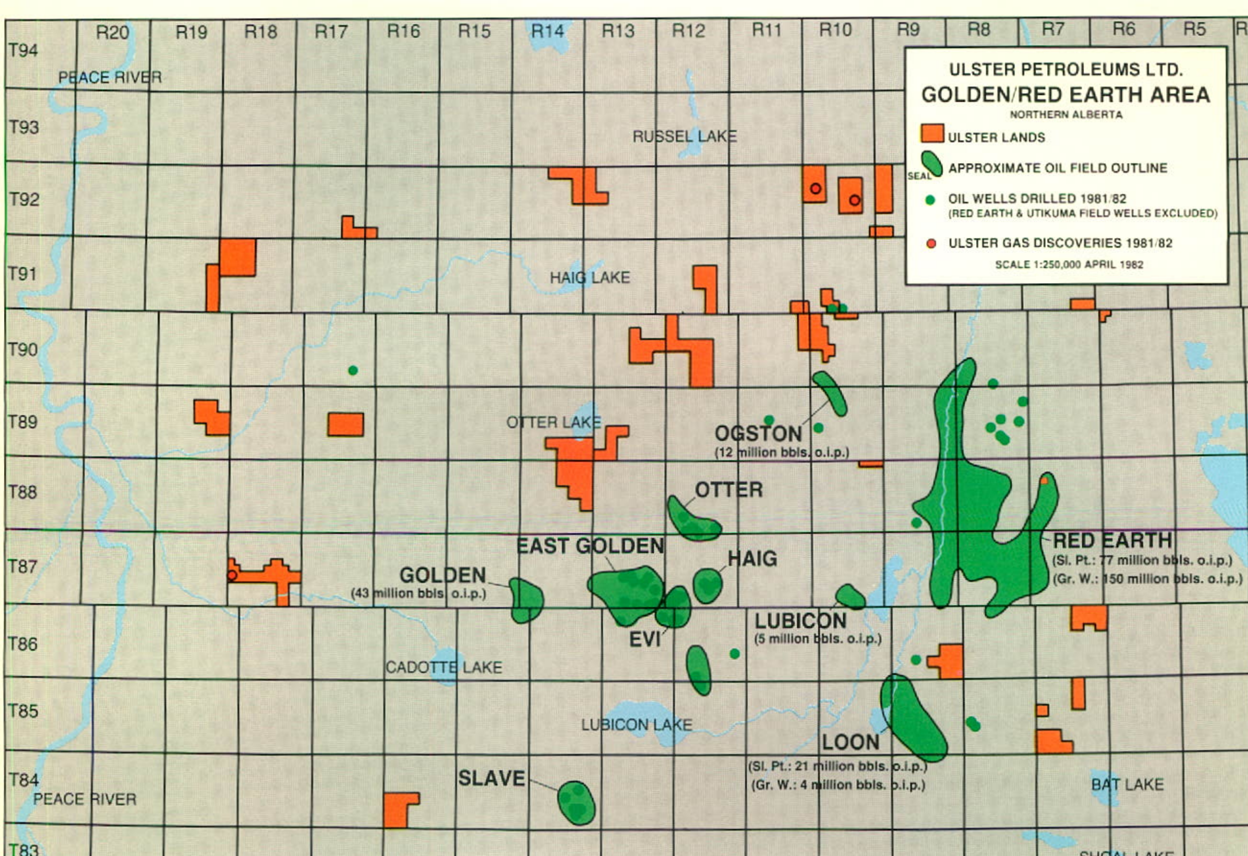
  Ulster presently controls 7,840 gross acres of mineral rights adjacent to this well and a recently announced oil discovery drilled one mile east of Ulster's location by a third party. The results of these two wells and an infill seismic program conducted by Ulster during the latter part of this winter will provide the information necessary to deliniate the areal extent of this oil pool and the offsetting locations to be drilled by your Company next winter.

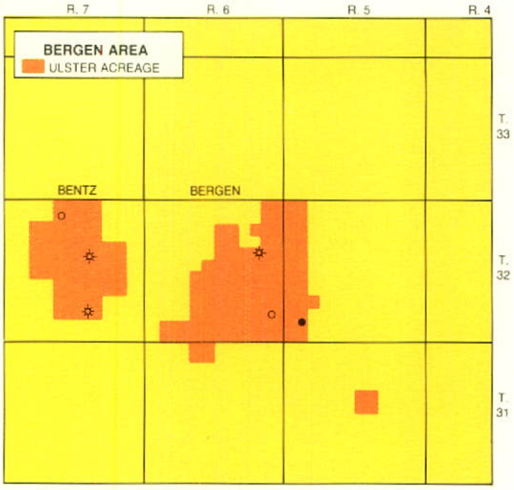
- Two wells were successfully completed as gas wells in the Bluesky/Gething Formation. Although these wells are located approximately four miles apart, the available geological and reservoir data strongly suggests that the productive zone found in the two wells will likely be present over much of the 12,800 gross acres controlled by Ulster in this area.

At this time, however, the lack of available natural gas markets in Alberta precludes further drilling which would be required to define the areal extent of this prospective gas field.

- One well was completed as a gas well in the Debolt Formation at a stabilized flow rate of 1.7 million cubic feet of gas per day. Although this well was drilled on a 6,560 acre licence controlled by Ulster, the areal extent of this discovery cannot be estimated at this time since there is only one other well in this Township.

Once again, the lack of available natural gas markets precludes Ulster from attempting to extend these reserves onto other portions of our lands.





- Of the remaining four wells — two were completed as non-commercial oil wells and two were dry and abandoned. In at least two of these cases, however, the results obtained from the initial wells have been sufficiently encouraging that plans are being made for follow-up drilling during the 1982-83 winter drilling season.

Needless to say, management is very encouraged by the exploration results achieved to date, but of even greater importance is the fact that Ulster now finds itself with a land and seismic base equal to or greater than that of most of its competitors in an area where the Industry has drilled over 125 exploratory wells during the past two winter drilling seasons alone. Accordingly, the prospects for extensive additional drilling activity on Ulster's holdings appear excellent.

Bergen Area

A detailed seismic program was completed by the Company in this area during the year with the result that a definable drilling prospect in the Devonian formation was identified under our lands. This information was then used to obtain a commitment from a major exploration company wherein they have agreed to:

- drill a 14,000 foot Devonian test well at no cost to Ulster to earn one-half of Ulster's 15% working interest in an eight section block of land. This well is expected to spud in June, 1982. The farmee has also been granted an option to drill a second well on this block to earn a similar interest in the balance of our holdings.

- carry Ulster (as to a 4.5% working interest) on a $3,000,000 successful land bid made on 6,880 acres of offsetting lands at an August 1981 Alberta land sale.

- to reimburse Ulster for 50% of the seismic costs it had incurred to delineate this prospect.

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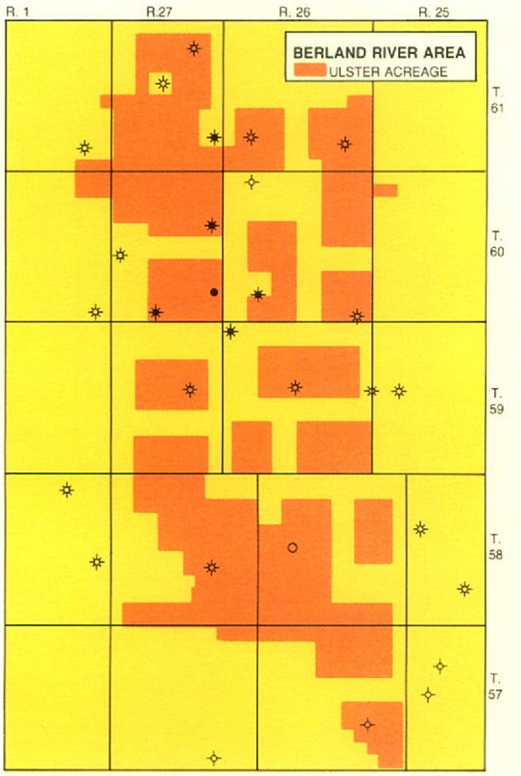
During 1981 Ulster also participated in the drilling of a follow-up well to a producing Cardium oil well which we had drilled in 1980. This well encountered natural gas in the Cardium Formation and as such has been shut in. Additional follow-up drilling will now be deferred pending completion of the aforementioned drilling activity.



Berland River

Ulster has participated (10% working interest before payout) in the drilling of ten exploratory wells on 97,915 gross acres of jointly owned lands in the Berland River area of Alberta during the past two years. In addition, a farmee has drilled two other wells on these lands during the same period.

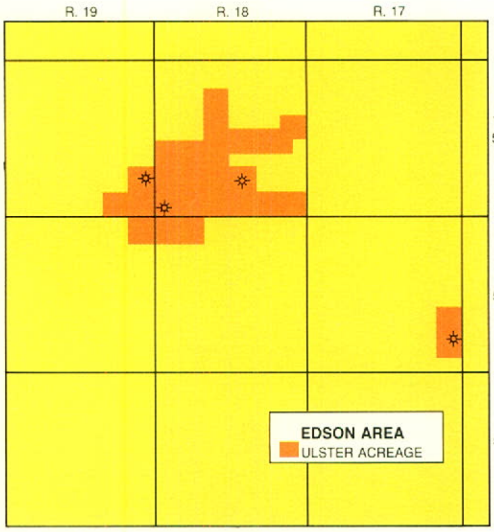
Of the twelve wells drilled to date — four have been completed as dual Cardium oil and Lower Cretaceous gas wells; six have been completed as Lower Cretaceous gas wells; one remains to be completed; and one was junked due to mechanical problems.

Although the drilling activity undertaken to date has confirmed the presence of potentially significant oil and gas reserves under much of the Company's lands, follow-up deliniation and developmental drilling has been indefinitely postponed due to the current marketing and economic problems within the Industry.

Wainwright Area

The Wainwright area of east-central Alberta continues to contribute substantially towards the Company's production revenues as well as offering the potential for extensive future development.

During 1981, Ulster ($33^1/_3$% working interest) completed the drilling of three additional oil wells and the installation of a waterflood system in the SE ¼ of Section 15-45-6 W4M. These wells are expected to go on stream during May, 1982 at a combined production rate of approximately 125 barrels of oil per day.



The recent Federal/Provincial pricing accord now offers positive inducements (specifically lower royalties and new oil prices) for the development of heavy oil pools such as those situated under the Company's lands in the Wainwright area. Accordingly, the Company is currently pursuing various investment alternatives which are intended to bring major portions of these undeveloped heavy oil reserves onto stream in the near future. (The oil in place on just two sections of these lands has been independently evaluated as being over 24 million barrels.)

Other Drilling Activity

During 1981 Ulster drilled a fourth gas well (25% working interest) on its acreage in the Edson-Whitecourt area of Alberta in order to preserve certain expiring Crown acreage. Ulster now has an 18% average working interest in 17,440 gross acres in this area. Since these lands are not covered by an existing gas contract, additional developmental drilling has been deferred.

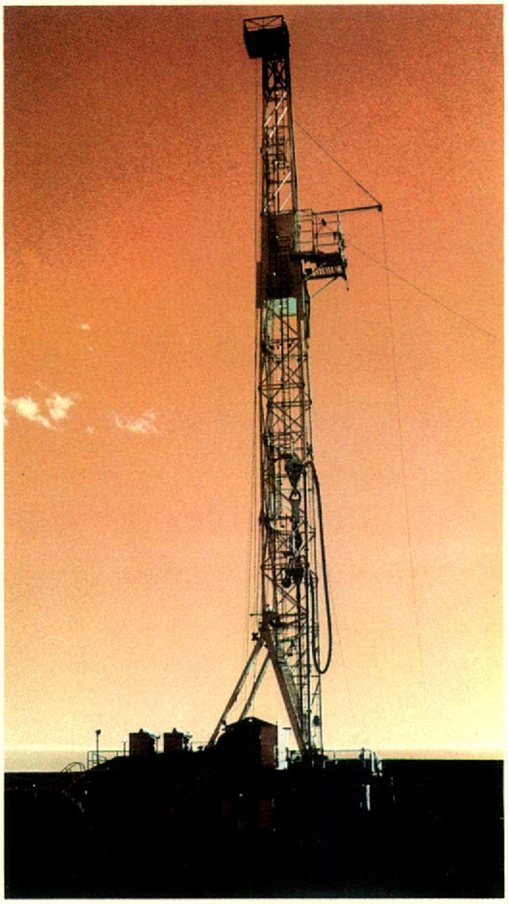
The Company participated (70% working interest) in the drilling of a 10,000 foot Basal Quartz gas well in the Caroline area of Alberta. This well was completed early in 1982 and is expected to be put onto production later this year.

BEAUFORT SEA

The 1981 drilling season in the Beaufort Sea brought with it some of the most encouraging and positive drilling results announced to date. These results, however, appear to have created an unusual amount of controversy in some circles rather than the euphoria one might normally expect. Although I am not privy to all of the facts (if they do in fact exist at this stage in the exploration cycle of an area as large as the Beaufort Sea) necessary to judge the merits of the detractors' assertions, I personally am extremely encouraged by the information released by Dome and its partners.

SUMMARY OF LAND HOLDINGS

Geographical Area	Gross Acres	Net Acres
ALBERTA		
1. Akuinu	1,280	1,120
2. Alexander	2,186	23
3. Berland River	97,915	5,648
4. Bentz	8,480	261
5. Bergen	18,080	2,093
6. Big Bend	12,800	928
7. Claresholm	11,040	552
8. Crimson Lake	9,760	1,824
9. Crossfield	2,240	1,200
10. Coutts	1,920	480
11. Drumheller	10,560	1,984
12. Edson	17,440	3,144
13. Golden/Red Earth	98,560	19,520
14. Huxley	4,160	440
15. Lait	1,280	280
16. Little Bow	3,680	471
17. Medicine Hat	38,400	31,314
18. Muskwa-Utikuma	1,120	280
19. Retlaw	3,200	488
20. Rumsey	5,120	224
21. Sedalia	4,000	1,120
22. Three Hills Creek	3,840	464
23. Turner Valley	14,520	642
24. Wainwright	10,240	2,173
25. Willesden Green	1,280	400
26. Winnifred	2,560	896
27. Wrentham	1,120	373
Other Alberta interests in aggregate	7,680	4,438
Alberta Total	394,461	82,780
Beaufort Sea, N.W.T. and Other Provinces	736,064	180,624
Canadian Total	1,130,525	263,404
Foreign Total	158,189	4,254
TOTAL	1,288,714	267,658



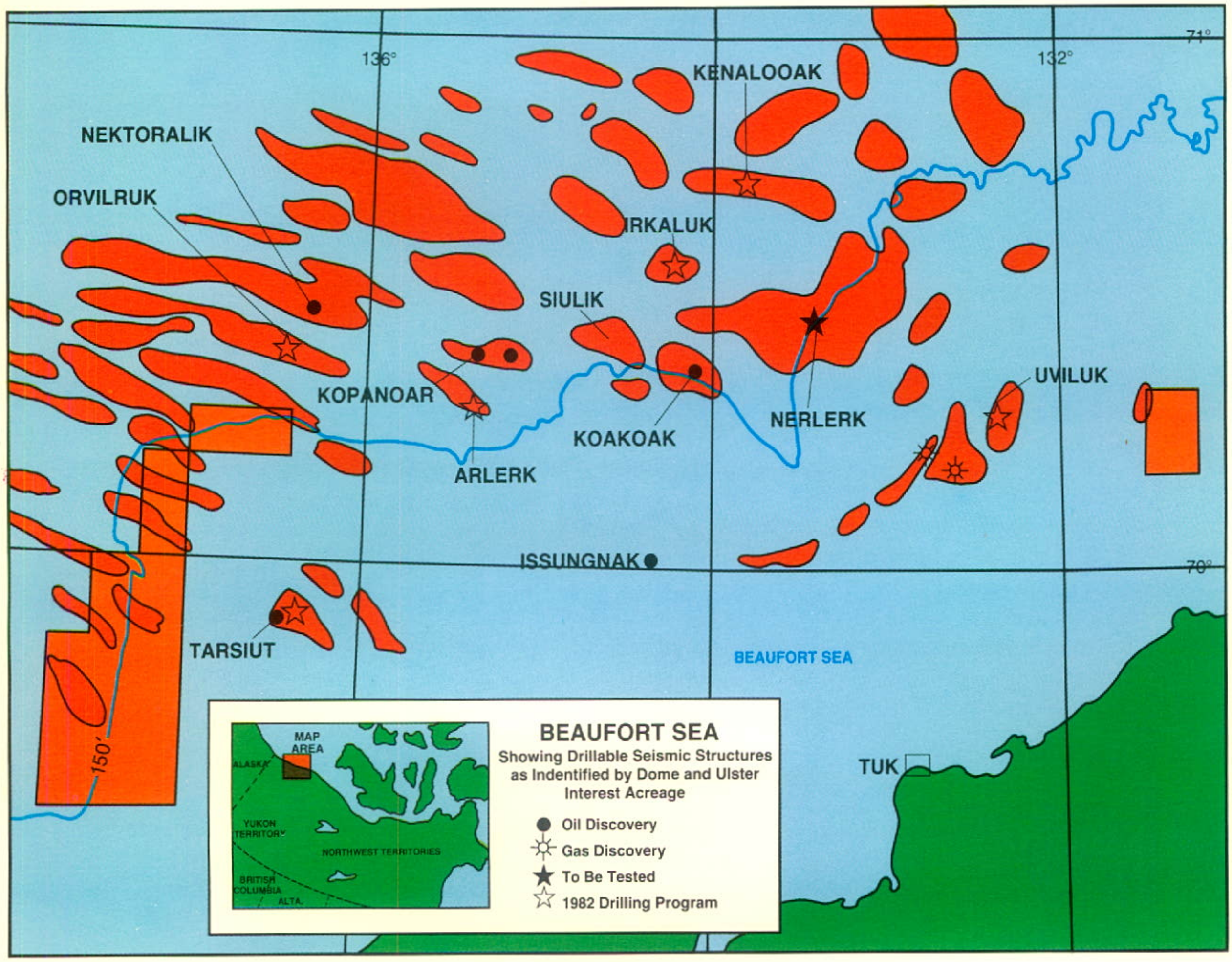
Ulster has now committed substantially all of its Beaufort Sea holdings to Dome in order to expedite exploration activity as required under the recently proclaimed Canada Oil and Gas Act. Although Dome has not committed to a definite spud date under these agreements, the Beaufort Sea map included with this report clearly illustrates the reasons for their interest in our holdings.

The following summary has been prepared to highlight significant Beaufort Sea announcements since the publication of our 1980 Annual Report.

- The Tarsiut Structure is the focus of current exploration activity in the Beaufort Sea. The Tarsiut A-25 discovery well was production tested in 1980 at rates of up to 800 barrels of oil per day on a restricted choke. During the summer of 1981 a caisson supported artificial island was constructed in this area for use in delineation drilling this winter. The Tarsiut N-44 well which was drilled from this island has now apparently reached total depth and will be the subject of extensive production testing in the next two months. If the results of these tests are successful, a minimum of two additional wells will be drilled on this structure by the end of this year.

  The reasons for Gulf's concentrated attack on this structure appear to be fairly simple: shallow oil zones spanning a potentially large areal extent and shallow water depths should equate to earlier commercial production.

- Kopanoar 21-44, located 2½ miles northeast of the 1979 Kopanoar M-13 discovery well, was drilled to a total depth of 13,100 feet and tested oil in the equivalent Kopanoar M-13 zone. The calculated flow capacity of this equivalent zone has been projected to be 5,000 to 10,000 barrels of oil per day under producing conditions. The Kopanoar M-13 discovery well, tested in 1979, has an estimated productive capacity from four zones in excess of 12,000 barrels of oil per day.



- Koakoak O-22 reached a total depth of 14,300 feet during 1981. Testing was limited by season closure. The most promising oil zone is 700 feet in gross thickness, of which only the lower 70 foot section was evaluated sufficiently to estimate flow capacity. The calculated flow capacity from this 70 foot section is projected to be at least 5,000 barrels of oil per day under producing conditions.

The announced plans for the 1982 drilling season will see Canmar drillships complete three wells (Irkaluk, Kenalooak and Orvilruk) and spud two additional wells (Siulik and Arlerk) in the Beaufort Sea.

FINANCIAL REVIEW AND ANALYSIS

Petroleum and natural gas sales were virtually unchanged from their 1980 levels, while cash flows from operations decreased approximately 15% to $878,000. This reduction is primarily attributable to the introduction of various Federal petroleum and natural gas revenue taxes and higher production expenses. Since both of these expense items are expected to have a continuing negative impact on future cash flows, improved cash flows for the Company can only be derived from the marketing of its existing shut-in reserves. Accordingly, Ulster is actively pursuing potential industrial markets for a number of its existing gas reserve areas as well as placing continuing emphasis on the development of our oil-prone acreage. The benefits accruing from these actions will be slow in coming due to the current situation within the Oil Industry in Canada. Management is however confident that 1982 and subsequent years' production revenues and cash flows will show significant improvements from these actions.

The Company's statement of earnings shows a net loss of $377,000 in 1981 compared to a restated net loss of $993,000 in 1980. The major charge included in the statement of earnings continues to be depletion expense. This charge is inordinately high for 1981 and also in the restated numbers for 1980 (wherein depletion expense has been retroactively increased by $1,313,000) for two principal reasons:

1) Ulster's exploration policy has placed primary emphasis on acquiring large acreage positions in highly prospective areas. Since only limited, or in many cases no drilling activity has been conducted on these lands, the proven reserves recognized by the Company represent only a small fraction of their total potential. The total cost of these lands, however, is depleted on a current basis.

2) The second reason, and the principal cause for the restatement and retroactive increase in the 1980 charge, evolved in direct response to the dramatic changes in taxes and pricing which have come into effect in Canada during the past eighteen months. These changes have caused Management to critically assess and evaluate its capitalization and depletion and depreciation policies as they relate to all aspects of the Company's oil and gas operations. The results

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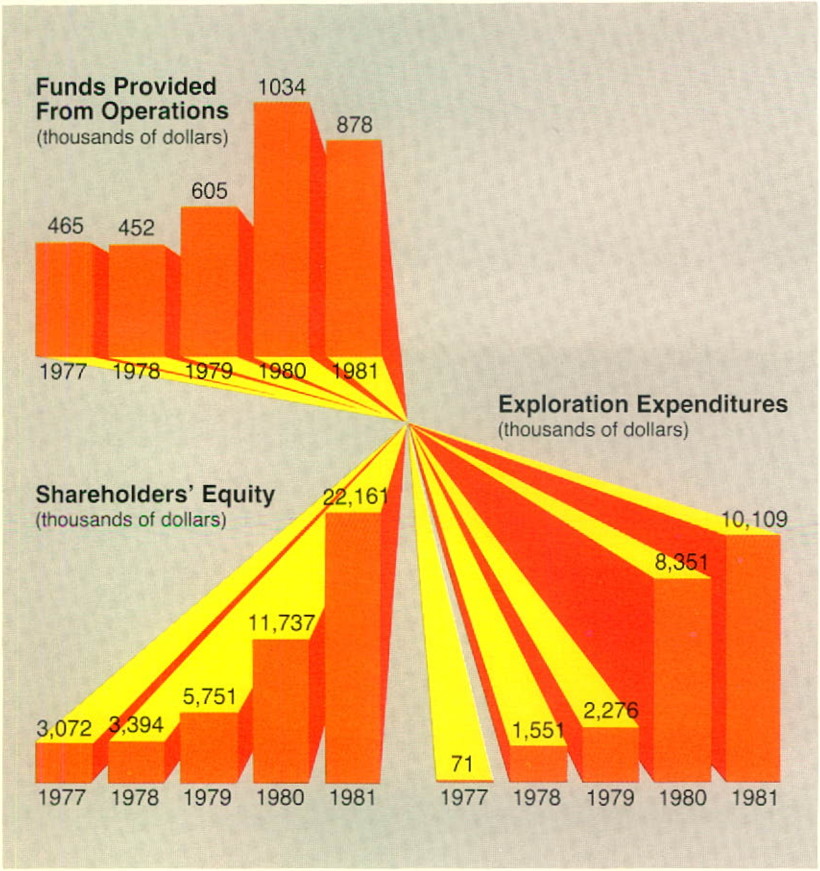
of this study quite frankly indicated that we had apparently been overly optimistic in certain areas and overly pessimistic in others, particularly in view of the current economic scenario in Canada. Accordingly, management has elected to bite the bullet and increase its charge to 1981 and 1980 depletion expense by $716,000 and $1,313,000 respectively over what would otherwise have been required under our previous assumptions. These charges are of a non-recurring nature.

In 1980 Ulster raised in excess of $10,000,000 through a successful rights offering to its shareholders ($7,267,000) and a private placement of shares at market ($3,334,000). These funds, combined with the Company's 1981 cash flows from operations, allowed Ulster to continue its exploration activities without the need for long-term debt financing. This trend is expected to continue into 1982 with the result that the majority of the Company's $7,000,000 exploration budget for 1982 will be financed from available financial resources.



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BALANCE SHEET

Assets

	December 31	
	1981	1980
		(Restated)
Current assets:		
Cash	**$ 66,000**	745,000
Accounts receivable	**536,000**	566,000
Notes due from shareholders (Note 5)	**1,230,000**	—
Petroleum incentive payments receivable (Note 3)	**2,320,000**	—
Total current assets	**4,152,000**	1,311,000
Deferred income taxes	**645,000**	310,000
Property, plant and equipment (Note 3)	**21,388,000**	12,534,000
Other assets, at cost	**26,000**	26,000
	$26,211,000	14,181,000

On behalf of the Board,

O. Traxel Director

R. A. Hayes Director

See accompanying notes.

Liabilities and Shareholders' Equity

	December 31	
	1981	1980
		(Restated)
Current liabilities:		
Bank advances (Note 4)	**$ 2,600,000**	—
Accounts payable and accrued liabilities	**1,286,000**	2,071,000
Total current liabilities	**3,886,000**	2,071,000
Deferred revenue	**164,000**	173,000
Advances under private placement	**—**	200,000
Shareholders' equity:		
Share capital (Note 5)	**27,301,000**	16,500,000
Deficit	**5,140,000**	4,763,000
	22,161,000	11,737,000
	$26,211,000	14,181,000

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STATEMENT OF EARNINGS

	Year Ended December 31	
	1981	1980
		(Restated)
Revenue:		
Petroleum and natural gas	**$1,549,000**	1,577,000
Other	**271,000**	179,000
	1,820,000	1,756,000
Expenses:		
Production	**634,000**	484,000
Petroleum and natural gas revenue tax	**72,000**	—
General and administrative	**302,000**	273,000
Interest on long-term debt	**—**	20,000
Depletion	**1,149,000**	1,951,000
Depreciation and amortization	**106,000**	76,000
	2,263,000	2,804,000
Loss before income taxes	**(443,000)**	(1,048,000)
Income taxes (Note 7):		
Alberta royalty tax credit	**(66,000)**	(55,000)
Net loss	**(377,000)**	(993,000)
Net loss per share	**$ (0.03)**	(0.11)

See accompanying notes.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1981	1980 (Restated)
Funds provided from:		
Operations	$ 878,000	1,034,000
Issue of shares	10,466,000	7,041,000
Advances under private placement	—	200,000
Deferred revenue	—	18,000
Other assets	—	33,000
	11,344,000	8,326,000
Funds applied to:		
Reduction of long-term debt	—	950,000
Additions to property, plant and equipment	10,109,000	8,351,000
Reduction of advances under private placement	200,000	—
Deferred revenue	9,000	—
	10,318,000	9,301,000
Increase (decrease) in working capital	1,026,000	(975,000)
Working capital (deficiency), beginning of year	(760,000)	215,000
Working capital (deficiency), end of year	$ 266,000	(760,000)

STATEMENT OF DEFICIT

	Year Ended December 31	
	1981	1980 (Restated)
Deficit, beginning of year:		
As previously reported	$3,345,000	3,508,000
Adjustment for change in accounting policy (Note 2)	1,418,000	262,000
As restated	4,763,000	3,770,000
Net loss for the year	377,000	993,000
Deficit, end of year	$5,140,000	4,763,000

Notes to Financial Statements
December 31, 1981

1. Significant accounting policies:

a) Oil and gas properties:

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical expenditures, carrying charges of undeveloped properties, costs of drilling productive and non-productive wells, and overhead expenses directly related to exploration activities after deducting related government grants receivable by the Company. A separate cost centre is maintained for each country in which the Company is engaged in exploration and production activities.

During 1981 the Company adopted the revenue method of depletion whereby all capitalized costs, excluding the cost of wells in progress on significant undeveloped properties, are allocated to individual periods in the same proportion as current revenue is to the total estimated revenue from proven reserves of oil and gas as determined by independent engineers. This modification of the unit-of-production method was made in response to changes in the pricing of hydrocarbons initiated by the National Energy Program and finalized with the signing of the Energy Pricing and Taxation Agreements between the Federal Government and the producing provinces. If the composite unit of production method had been used in 1981, the net loss for the year ended December 31, 1981 would have increased by $251,000 or $0.02 per share.

Proceeds of minor property sales are credited to the net book value of property, plant and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the statement of income.

Renewals or replacements which improve or extend the life of existing properties are capitalized. Those of a routine nature as well as maintenance and repairs are charged to income.

b) Production and other equipment:

Depreciation and amortization is provided using the following rates and methods.

Production equipment	— 5-10% declining balance
Other equipment	— 5-20% declining balance
Leasehold improvements	— over the term of the lease

During the year the Company revised the service lives of production equipment and reduced the rates of depreciation from 10% and 20% to 5% and 10%. If the former rates had been used in 1981 the net loss for the year ended December 31, 1981 would have increased by $77,000 or $0.01 per share.

c) Deferred revenue:

Deferred revenue represents amounts received in respect of "take-or-pay" natural gas contracts. These revenues have been deferred pending ultimate natural gas delivery or expiration of the contractual delivery period. All operating costs related to these shut-in periods, however, are expensed as incurred.

d) Joint interest operations:

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

e) Foreign currency translation:

Current assets and current liabilities are translated at the rates in effect at the balance sheet dates. All other assets and liabilities are translated at rates in effect at the time the transactions occurred. Revenue and expense items, except for depletion which is translated at the rate applicable to the related asset, are translated using the approximate average monthly quoted rates of exchange. Foreign currency exchange gains and losses are included in earnings.

f) Earnings per share:

Earnings per share is calculated using the weighted monthly average number of shares outstanding during the year. Assuming the exercise of the share warrants and stock options at the beginning of 1981, there would be no dilution in earnings per share.

2. Change in accounting policy:

During the year the Company modified its full cost method of accounting for oil and gas properties whereby a separate cost centre was established for each country. Under the method previously used Canada and the United States were included together as one North American cost centre. The financial statements for 1980 have been restated to reflect this retroactive change. As a result of this change the net loss for 1981 increased by $716,000 or $0.06 per share and for 1980 increased by $1,156,000 (including related income taxes of $157,000) or $0.13 per share.

3. Property, plant and equipment:

	1981			1980
	Cost	**Accumulated depletion and depreciation**	**Net Book Value**	Net Book Value
				(Restated)
Oil and gas properties	**$25,419,000**	**5,116,000**	**20,303,000**	11,691,000
Production equipment	**1,828,000**	**913,000**	**915,000**	736,000
Leasehold improvements	**59,000**	**16,000**	**43,000**	50,000
Other equipment	**143,000**	**68,000**	**75,000**	57,000
Automobiles	**61,000**	**9,000**	**52,000**	—
	$27,510,000	**6,122,000**	**21,388,000**	12,534,000

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Grants due to the Company under the Canadian Government's Petroleum Incentive Program, aggregating $2,320,000, have been accrued in accordance with the proposed regulations and treated as a reduction in the cost of the related exploration and development expenditures. The legislation and regulations in respect of this program have not been enacted by Parliament.

Oil and gas properties includes wells in progress having an aggregate cost of $7,095,000 (1980 — $1,570,000) which have been excluded from the calculation of depletion expense for the year. Interest incurred during the year of $169,000 (1980 — $nil) has been included in the cost of wells in progress.

4. Bank advances:

The bank advances are payable on demand, bear interest at 18¼% and are secured by an assignment of book debts and certain oil and gas properties.

5. Share capital:

		1981	1980
Authorized:	Common shares without nominal or par value	50,000,000	12,000,000
	Convertible first preferred shares (none issued)	5,000,000	—
Issued:	12,154,060 common shares (1980 — 9,397,050)	$27,301,000	16,500,000

a) Rights issue:

In March 1981, the Company made a rights offer to its shareholders on the basis of one common share for every five common shares held at a subscription price of $4.00 per share. The offer was fully subscribed and resulted in the issue of an additional 1,889,010 common shares for a net consideration of $7,267,000 after deducting share issue expenses of $567,000 and including a deferred income tax benefit of $278,000.

b) Private placement:

In August 1981, the Company issued 43 units at a price of $130,000 each. Each unit consisted of the right to earn 20,000 common shares of the Company and 15,000 share purchase warrants, each of which entitles the holder thereof to purchase one common share of the Company at a price of $6.00 during the period from July 1, 1982 to June 30, 1984. At December 31, 1981, $5,330,000, representing the gross proceeds of 41 units, had been expended on petroleum and natural gas properties and accordingly 820,000 common shares and 615,000 share purchase warrants were issued to the investors. The common shares issued by the Company have been recorded in the financial statements for a net consideration of $3,334,000, after deducting Petroleum Incentive Program grants of $1,936,000 which will flow through to the unit holders and share issue expenses of $117,000 and including a deferred income tax benefit of $57,000. The remaining proceeds of $260,000 will be spent in 1982 and will result in the issue of an additional 40,000 common shares and 30,000 share purchase warrants.

Under the terms of the agreement to purchase the units, $100,000 in cash was received during 1981 and the balance of $30,000 per unit was evidenced by a promissory note secured by the assignment of the purchasers' interest in Petroleum Incentive Program grants receivable on the related expenditure.

Advances under a private placement in 1980 aggregating $200,000 were expended during 1981 and resulted in the issue of 48,000 common shares and 20,000 share purchase warrants during 1981.

c) Stock options:

The Company has reserved 500,000 common shares for granting under option to full time employees. During the year the Company cancelled all previously issued share options and granted new options on 254,000 common shares. These options are exercisable at $2.25 per share to a maximum of 20% per annum on a cumulative basis commencing on January 1, 1981. All options terminate on December 31, 1989 and none were exercised during the year.

d) Warrants:

In conjunction with the private placement of common shares in 1981 and 1980, the Company issued the following common share purchase warrants:

	Number outstanding	Exercise price	Expiry date
1980 Warrants:			
Issued 1980	430,000	$5.70/share	June 30, 1983
Issued 1981	20,000	$5.70/share	June 30, 1983
1981 Warrants	615,000	$6.00/share	June 30, 1984

Pursuant to the anti-dilution provisions of the 1980 warrants, each warrant outstanding now entitles the holder to purchase 1.2 common shares of the Company at the price indicated.

6. Remuneration of directors and officers:

The aggregate remuneration paid by the Company to directors and five senior officers during the year amounted to $405,925 (1980 — $211,000).

7. Income taxes:

Certain petroleum and natural gas properties of the Company have tax values in excess of their net book value in the amount of $2,400,000 (1980 — $2,300,000). The future income tax benefits related to these amounts have not been recognized in the accounts.

Under the terms of the private placements of common shares by the Company, all wells drilled and production obtained accrue to the Company and the related exploration and development income tax deductions and grants accrue to the investors. Accordingly petroleum and natural gas properties with a net book value of $7,635,000 (1980 — $4,170,000) have no cost for income tax purposes.

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8. Segment information:

The Company operates as an oil and gas exploration and development company. The following information relates to the Company's operations in Canada and the United States.

	Canada		United States		Total	
	1981	1980	1981	1980	1981	1980
	(thousands of dollars)					
Revenues	1,718	1,608	102	148	1,820	1,756
Operating profit (loss)	535	490	(676)	(1,245)	(141)	(755)
Unallocated expenses					302	293
Loss before income taxes					(443)	(1,048)
Depletion, depreciation and amortization	498	646	757	1,381	1,255	2,027
Capital expenditures	9,412	7,220	697	1,131	10,109	8,351
Identifiable assets	21,158	12,244	230	290	21,388	12,534

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Ulster Petroleums Ltd. as at December 31, 1981 and the statements of earnings, 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, 1981 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
April 15, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CORPORATE INFORMATION

INCORPORATION
Formed by statutory amalgamation on
January 12, 1970 in the Province of Alberta

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STOCK EXCHANGE LISTING:
Toronto Stock Exchange
Share Symbol: ULP

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