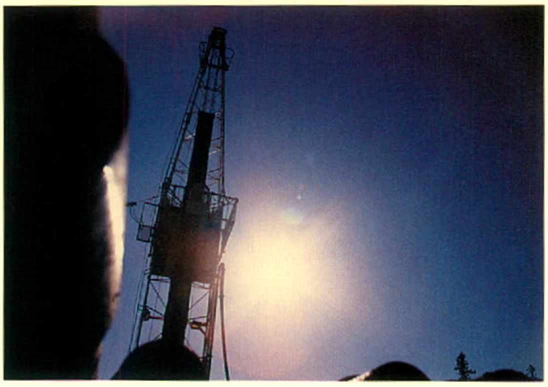
ULSTER PETROLEUMS LTD.



1990 ANNUAL REPORT

Contents

Shareholders' Meeting

The Annual General Meeting of the Shareholders of Ulster Petroleums Ltd. will be held in the Glenmore Room at the Calgary Convention Centre, 120 - 9th Avenue S.E., Calgary, Alberta on Friday, May 31, 1991 at 10:00 a.m.

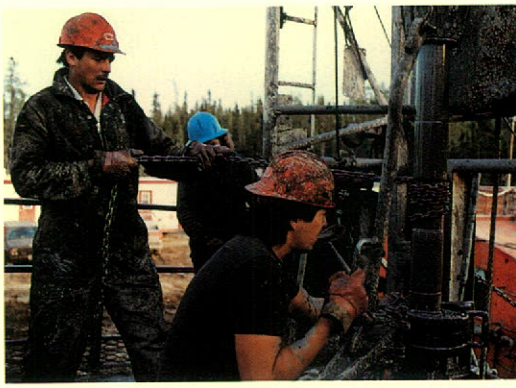
Please sign and return the proxy form in the enclosed postage paid envelope if you cannot attend this meeting.

Cover: The cover photographs depict our exploration program at Marten Hills which commenced in December 1987 with the drilling of Ulster's 16-36-14-2 W5M discovery well and culminated on November 1990 when we obtained 14 mmcf/d of firm transportation for our newly constructed compression facilities.

CORPORATE PROFILE

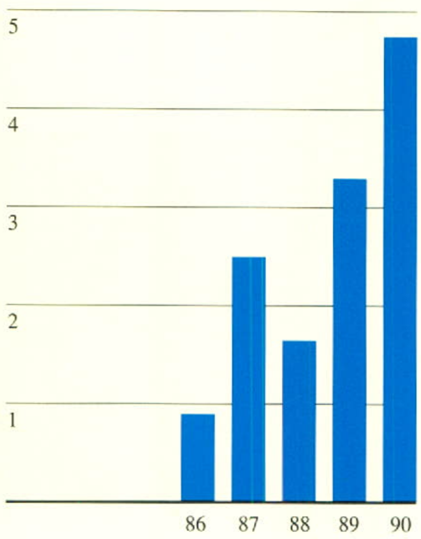
Ulster Petroleums Ltd. was incorporated in Alberta and listed its shares on The Toronto Stock Exchange in 1968.

- Ulster has achieved consistent annual growth in its production volumes at a finding cost which ensures profitable future operations.

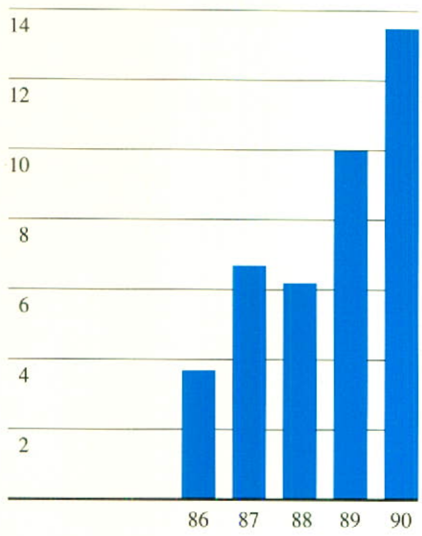


- Ulster is managed by a highly qualified and motivated management group which has successfully worked together for over ten years.
- Ulster has successfully built a solid capital and cash flow base which allows us to aggressively pursue new opportunities.
- Ulster is not predisposed to either oil or natural gas, but rather pursues those exploration opportunities which offer the greatest long-term potential for our Company.

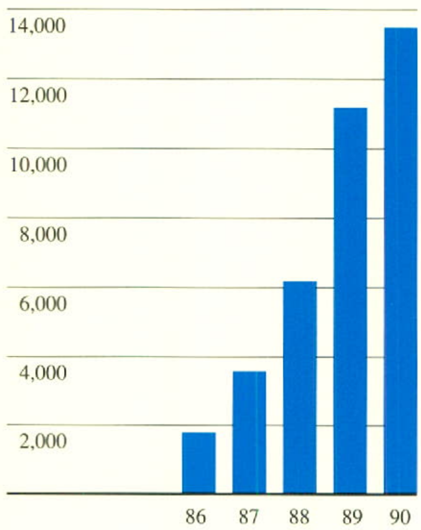
Net Earnings
($ millions)



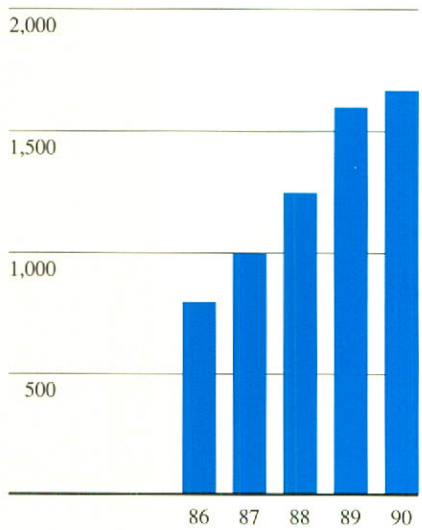
Cash Flows
($ millions)



Daily Gas Production
(mcf)



Daily Oil Production
(barrels)



REPORT TO SHAREHOLDERS

1990 was a year of continued growth and success for Ulster in which we achieved substantially all of our financial and exploration objectives and laid a solid foundation for future growth of our production volumes.

Financial Performance

Ulster's **net earnings** increased 42% to $4,757,000, **cash flows from operations** increased 36% to $13,561,000, and **production revenues** increased 20% to $19,454,000 in 1990. Each of these amounts represents a record total for Ulster and 1990 marks the ninth consecutive year that our Company has reported a profit on its operations.

These increases are primarily a result of higher natural gas production volumes, higher crude oil selling prices, and lower operating costs.

Ulster's book capitalization and net investment in oil and natural gas properties both reached $100 million in 1990. Thus, we have established the necessary capital base and stream of net future revenues to internally finance our aggressive corporate growth objectives in the 1990s.

Exploration Activities

Ulster's net capital expenditures reached a record total of $20,651,000 during the year ended December 31, 1990. This increase was attributable to our continued emphasis on exploratory drilling, our construction of major new natural gas production facilities, and our aggressive acquisition of undeveloped lands for future exploration.

Ulster's drilling activities have been heavily oriented towards exploratory natural gas wells in north-central Alberta in recent years. This trend was evident again in 1990 as 30 of the 39 wells Ulster drilled were exploratory tests and 16 of our 25 successful wells were completed as natural gas wells. Our exploratory well total of 30 wells and our success ratio of 60% for these wells were both record totals for the Company.

Ulster's $6 million investment at Alberta land sales in 1990 ranked our Company as one of the ten largest purchasers during the year, excluding land brokers. These additions have increased our net undeveloped land inventory by 32% and will ensure that 1991 will be our most active drilling year ever.

Natural Gas Production

November 1, 1990 was the most significant date in Ulster's natural gas exploration program since its inception in late 1986, as this date marked our first receipt of new firm transportation on the Nova pipeline system in Alberta and the start-up of our first long-term export contract for natural gas. Thus, Ulster has paid its start-up dues to enter the natural gas game. We can now look forward to reaping the benefits of our considerable investment in natural gas prospects during the last four years through significant and predictable future production increases.

We are not predisposed to either crude oil or natural gas production, but rather pursue those exploration opportunities which offer the greatest long-term potential returns for our Company. We believe that the potential for significant production additions is greater for natural gas projects today and, accordingly, we are directing approximately two-thirds of our efforts in this direction.

Outlook for the Future

Much has been said and written about the future price trends and prospects for both crude oil and natural gas during the past year. Since both of these resources are commodities, it is likely that each of the potential high and low price scenarios has a little bit of truth in it. Corporately, we believe that crude oil prices will average in the low $20 range in 1991 and then begin a modest upward trend which will exceed the rate of inflation. On the natural gas side, we see prices remaining relatively flat for the next two to three years and then a more dramatic upswing in prices as new pipeline capacity allows natural gas to effectively compete on an energy basis in the larger consuming markets in North America.

In view of the foregoing, we believe that it is imperative for Ulster to continue to stress the development of long-term reserves and a highly efficient operating and finding cost structure. If we achieve these two objectives, we will be profitable in both the perceived good and bad years in the commodity cycle.

It is interesting to note that even at today's "depressed" natural gas selling prices, Ulster generates net cash flows of just under one dollar from each mcf of natural gas produced and marketed. This level of cash flow provides Ulster with a solid return on our cost of finding, developing and marketing these reserves. Furthermore, the majority of our recent discoveries have been made in natural gas pools which are expected to have a long-term production life which will enable us to capitalize on future price increases when they occur.

Management and Staff

Ulster is committed to the pursuit of new technology to support and enhance the capabilities of our staff in all aspects of our operations. During 1990, we acquired new computer equipment, programs and work stations which will provide our exploration group with state-of-the-art geological and geophysical computer capabilities as part of this ongoing commitment.

Ulster's success is directly attributable to the dedication and hard work of our management and staff. Accordingly, on behalf of the Board of Directors and our shareholders, I would like to acknowledge and thank them for their efforts.

On Behalf of the Board of Directors

D. Traxel

Donne C. Traxel
President

March 28, 1991

EXPLORATION ACTIVITY

Exploration Philosophy

Ulster is committed to corporate growth through the pursuit of exploration projects which will provide sustainable long-term growth of both our crude oil and natural gas production volumes.

Exploration projects pursued by Ulster are typically:

i) internally generated by our exploration group which includes eight geologists and two geophysicists;

ii) concentrated on large contiguous blocks of land which are expected to encompass new natural gas and oil fields rather than limited extensions of existing ones;

iii) concentrated in Alberta due to our technical expertise in identifying successful prospects within the Province; and

iv) Company operated so that the pace of activity and our related drilling and operating costs can be effectively controlled.

We are not predisposed to either crude oil or natural gas projects, but rather pursue those exploration opportunities which offer the greatest potential for long-term returns for Ulster. We are currently allocating more than two-thirds of our exploratory efforts and expenditures towards natural gas projects since they offer much greater potential for significant reserve additions than the typical crude oil prospect does today.

Ulster pursues the majority of its new exploration projects on a 100% working interest basis.

Capital Expenditures

Ulster's capital expenditures reached a record total of $20,651,000 during the year ended December 31, 1990. This increase was primarily attributable to our continued emphasis on exploratory drilling and seismic activities, and our aggressive acquisition of undeveloped lands for future exploration.

Exploratory drilling and seismic activities once again represented Ulster's largest expenditure category in 1990. This high level of exploration activity is primarily a function of the large scale land oriented plays that Ulster pursues. In our typical exploration project we will normally spend significant funds shooting and processing seismic data to confirm our geological leads. Once these leads have been confirmed, we will then purchase drilling islands to test our theories. Once proven, we then acquire additional lands and pursue similar exploration prospects in the project area. Development drilling, particularly on our natural gas prospects, is often not undertaken until our production facilities have been constructed and we have received our firm transportation for the area. Thus, this exploratory bias of our capital expenditures can be expected to continue so long as we aggressively pursue major long-term natural gas project areas.

Ulster's **undeveloped land** acquisition and maintenance expenditures also reached a record total of $6,384,000 in 1990 as we continued to aggressively add lands to our undeveloped inventory base during the year. Our purchases at Alberta land sales added 94,416 gross acres to this base and, as such, represented the most active year in our corporate history. These additions have increased our undeveloped land inventory to 166,600 net acres which will provide the base for our projected record levels of drilling activity in 1991 and 1992.

Construction of production facilities continued at a high level in 1990 as Ulster constructed five million cubic feet per day of new compression and gathering facilities at Rock Island, doubled our Marten Hills compression facility to 14 million cubic feet per day, and in July 1990 constructed solution gas reinjection facilities at Retlaw. This latter facility will reinject over one million cubic feet per day of solution gas back into this oil pool which will enable us to increase our current crude oil production levels and improve operating efficiency.

Property acquisition activity and expenditures declined significantly in 1990 due to the volatility of crude oil prices during the year. Ulster was able to acquire some prospective under-developed natural gas properties during the year but overall was a net seller of both natural gas and oil properties. These sales, representing almost 200 barrels of oil and over one million cubic feet of natural gas production per day, were undertaken in order to concentrate our efforts in our major and most economic areas of operations. Accordingly, these sales will have a positive impact on our net production revenues which will more than outweigh their negative impact on our average production volumes and depletion expense.

Ulster capitalized $1,221,000 in **geological and geophysical expenses** in 1990 as compared to $963,000 in 1989. This increase is directly related to staff additions in our exploration group and is proportional to our growing level of exploration activity. This amount only includes the direct costs of maintaining our exploration group.

Ulster did not receive any **exploration incentives** in 1990 due to the termination of these programs in 1989.

Capital Expenditures

	1990		1989		1988	
			(000)			
Exploratory drilling and seismic	**$ 6,868**	**(33%)**	$ 5,108	(29%)	$ 4,941	(33%)
Developmental drilling	**1,313**	**(6%)**	1,567	(9%)	3,144	(21%)
Undeveloped land acquisition and maintenance	**6,384**	**(31%)**	2,119	(12%)	3,306	(23%)
Construction of production facilities	**4,927**	**(24%)**	5,003	(29%)	1,471	(10%)
Property acquisitions, net	**(62)**		3,363	(19%)	2,966	(20%)
Geological and geophysical expenses	**1,221**	**(6%)**	963	(6%)	928	(6%)
Exploration incentives recovered	–		(699)	(–4%)	(2,006)	(–13%)
Capital Expenditures	**$20,651**		$17,424		$14,750	
	(+19%)		(+18%)		(+69%)	

Drilling Activity

Ulster's drilling activities have been oriented towards exploratory natural gas wells in north-central Alberta in recent years. This exploration bias was evident again in 1990 as 30 of the 39 wells Ulster drilled were exploratory tests and 16 of our 25 successful wells were completed as natural gas wells. Although our total number of wells drilled declined in 1990 due to adverse weather conditions during the first quarter of the year, our net wells drilled increased to 27.3 as our average working interest was 70% for the year.

Ulster's total of 30 exploratory wells and success ratio of 60% for these wells were both record marks for the Company. This high number of exploratory wells is primarily a function of the type of play that the Company pursues, i.e. we are looking for new oil and natural gas fields and not just extensions of existing fields. Therefore, we expect this trend to continue for the foreseeable future.

DRILLING ACTIVITY

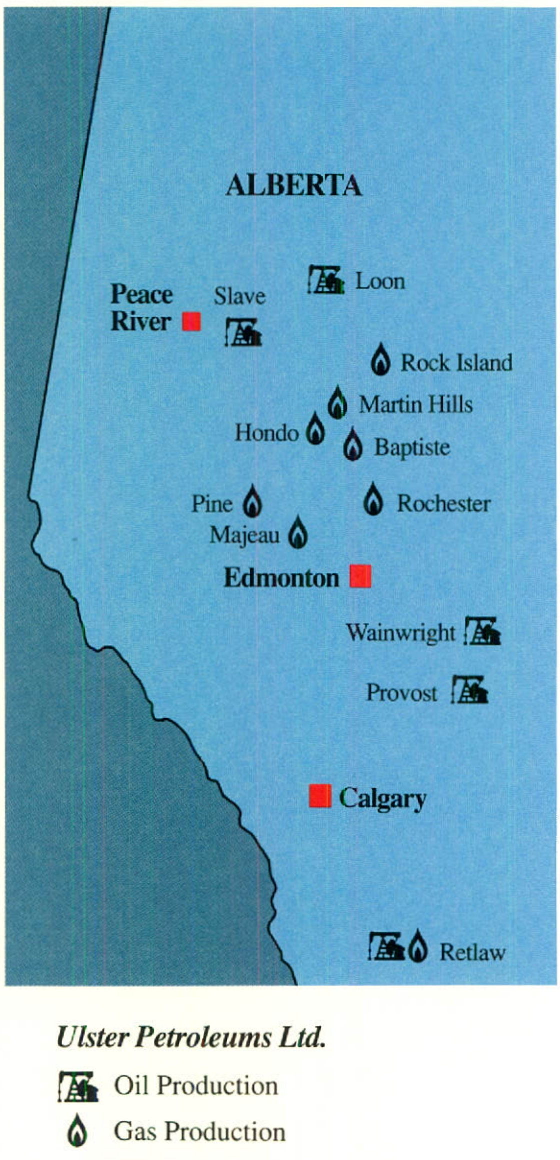
	1990		1989		1988	
	Gross	**Net**	Gross	Net	Gross	Net
Development Wells						
Oil	**5**	**2.5**	14	3.9	6	1.5
Natural Gas	**2**	**2.0**	2	1.5	5	4.4
Dry	**2**	**1.5**	3	1.3	2	0.7
Total	**9**	**6.0**	19	6.7	13	6.6
Exploratory Wells						
Oil	**4**	**0.8**	6	2.5	2	0.5
Natural Gas	**14**	**11.7**	4	2.9	6	5.5
Dry	**12**	**8.8**	16	9.5	14	8.8
Total	**30**	**21.3**	26	14.9	22	14.8
Total Wells Drilled	**39**	**27.3**	45	21.6	35	21.4
Average Working Interest	**(70%)**		(48%)		(61%)	

Natural Gas Exploration Activity

Ulster commenced a major exploration program in 1986 designed to pursue opportunities in the newly deregulated natural gas market.

As of the date of this Report, Ulster has purchased a 73% average working interest in more than 210,000 gross acres of prospective natural gas rights and has drilled 55 successful natural gas wells (29 in the last 15 months alone) under this program. These wells have increased Ulster's natural gas reserves to over 100 billion cubic feet and our production deliverability to over 50 million cubic feet per day.

Ulster's major areas of activity are highlighted on this map of Alberta and described in detail in the text which follows.



Marten Hills

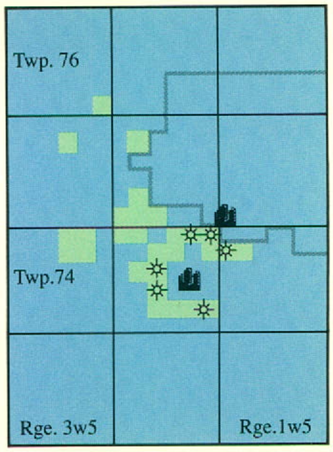
Marten Hills was the first major natural gas exploration project undertaken by Ulster. To date we have drilled six natural gas wells (100% working interest) on the 31 sections of natural gas rights we control on this prospect. These wells have been completed in the Wabiskaw formation (the primary producing formation in the offsetting Marten Hills Unit which covers an area of over 700 square miles) and five of them have now been tied into our compression facilities.

These 100% owned compression facilities were expanded in June of 1990 to 14 million cubic feet per day and in March of 1991 expanded again to their present capacity of 20 million cubic feet per day.

On November 1, 1990, Ulster obtained 14 million cubic feet per day of firm transportation for this facility. To date we have booked 16.2 billion cubic feet of natural gas reserves from these wells, however, we expect to significantly increase this reserve volume once production has confirmed that these wells are capable of draining more than the wells' applicable spacing unit.

Although this winter's exploratory drilling program only produced one of three exploratory drilling successes, we are still pursuing a number of additional exploratory leads in this immediate area.

Since December 1987, when we drilled our first exploratory well at Marten Hills, Ulster has invested approximately $6,000,000 in this project. Based upon our current natural gas selling prices and our projected production volume of 14 million cubic feet per day, this project will pay out during its first full year of production, or approximately four years since commencement of this project. Furthermore, these wells can be expected to produce at this volume for many years after payout since the majority of our reserves have yet to be produced.



Martin Hills

Ulster Lands
Gas Well
Ulster Compressor Station
Unit Boundary

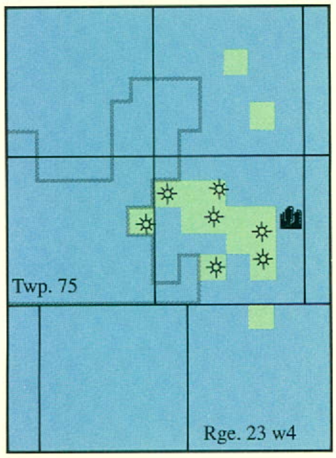
Rock Island

Ulster has drilled seven natural gas wells (92% average working interest) on the 15 sections of natural gas rights we control on our Rock Island prospect. These wells have been completed in the Wabiskaw formation which is the primary producing formation in the offsetting Marten Hills Unit.

In June 1990, these wells were completed and tied into Ulster's newly constructed compression facility. This facility has a production capability of 6 million cubic feet per day, but production is currently limited to our firm transportation of 3 million cubic feet per day which was received in November 1990.

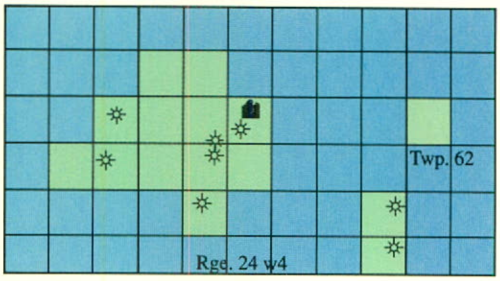
Ulster has booked 6.7 billion cubic feet of natural gas reserves at Rock Island.

Additional exploratory and development drilling activity is planned for this area to coincide with our scheduled firm transportation increase to 6 million cubic feet per day in November 1991.



Rock Island

Ulster Lands
Gas Well
Ulster Compressor Station
Unit Boundary



Rochester

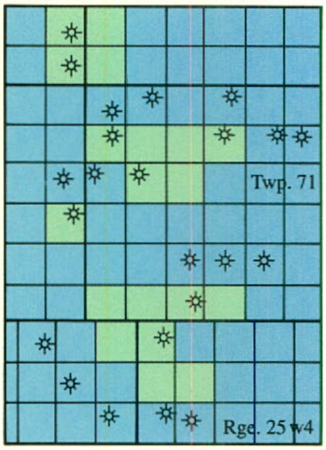
Ulster Lands
Gas Well
Ulster et al Compressor Station

Rochester

Ulster has drilled eight natural gas wells (62% average working interest) on the 15 sections of natural gas rights we control at Rochester. Production is obtained from one or more of the following zones in each of these wells: Colony, Basal Quartz, Glauconite and Wabamun.

Pipeline and plant construction was completed in July 1989, but production was limited until November 1990 when Ulster obtained 4 million cubic feet per day of firm transportation for this facility.

Ulster has booked 15.3 billion cubic feet of natural gas reserves at Rochester which we expect to produce at over 4 million cubic feet per day throughout 1991.



Hondo

Ulster Lands
Gas Well

Hondo

The Hondo area, approximately 20 miles south of the Marten Hills Unit, is one of Ulster's newest and likely our most successful natural gas exploration project.

To date, we have drilled eight natural gas wells (100% working interest) on the 22 sections of mineral rights we control in this area. These wells have encountered productive reserves in the Wabiskaw, Wabamun, Ostracod and Colony formations.

Plant construction is expected to commence later this year, however, we do not expect any significant sales to occur until our firm transportation of 7 million cubic feet per day is received in November 1992.

Ulster is aggressively pursuing additional exploration activities in this area which are expected to add significantly to the 17.8 billion cubic feet of reserves we have already booked from seven of the aforementioned wells. The eighth well was not drilled until 1991 and, therefore, its reserves will not be booked until 1991.

Other Natural Gas Exploration Areas

Ulster is aggressively pursuing a number of additional major natural gas projects in north-central Alberta.

As of the date of this Report, Ulster has acquired significant exploratory acreage at **Akuinu** (a 100% working interest in 30 sections), **Driftwood** (a 50% average working interest in 29 sections), **Cadotte** (a 33.3% average working interest in 66 sections), and **Fawcett** (a 72% average working interest in 15 sections) and we have drilled five successful natural gas wells out of six exploratory attempts on these lands. Due to the ongoing nature of our exploration in these areas and the related competitive factors, specific details of these activities cannot be made available at this time.

These project areas, together with a number of others which are in their early stages of exploration, will provide the impetus for Ulster's continued growth in natural gas production and reserve volumes throughout the 1990's.

Oil Exploration Activity

During 1990, Ulster's oil exploration activities were less than anticipated due to weather induced access problems early in the year and partner induced delays throughout the year. Ulster was, however, able to drill and complete nine successful oil wells during the year.

Ulster reactivated its oil exploration program in northern Alberta in 1990 with the successful completion of two new Granite Wash oil wells at **Gift**. Northern Alberta was our most active and successful oil exploration area in the early 1980's but activity has been limited in recent years due to the multitude of partners involved in our joint lands. Many of these undrilled lands expired in the late 1980's, but were reposted and repurchased by Ulster so that we could once again actively pursue this area. Two additional oil wells, one at **Gift** and one at **Loon**, were drilled in this area in the first quarter of 1991 and further drilling activity is planned for later this year.

In southern Alberta, Ulster drilled two successful oil wells during the year at **Grand Forks** and another oil well at **Retlaw**. A third successful oil well was also drilled and completed at **Grand Forks** during the first quarter of 1991.

At **Provost**, in central Alberta, Ulster drilled four additional wells on our lands in Township 37, Range 5 W4M. These wells have helped to define the limits of this oil pool, however, a decision on further development and construction of a central battery is awaiting partner approval.

Ulster has shot new seismic data and acquired lands in a number of new oil exploration areas which will be tested in 1991. We do not, however, expect this activity to represent more than 25% of the wells we will drill in 1991.

Land Holdings

Ulster is committed to building and maintaining a significant inventory of undeveloped land for future exploration activity.

In 1990, Ulster invested $6,141,000 to purchase a 60% average working interest in 94,416 gross acres of mineral rights at Alberta land sales. This amount represents the largest annual acreage total purchased by the Company and this investment placed Ulster in the top ten purchasers, excluding brokers, at Alberta land sales for the year.

ALBERTA LAND PURCHASES

	1990	1989	1988
Gross Acres	**94,416**	37,840	36,830
Net Acres	**56,913**	26,976	30,937
Average Working Interest	**60%**	71%	84%
Total Bonus Consideration	**$6,141,000**	$1,849,000	$3,051,000
Average Price Paid per Acre	**$108**	$69	$99
Industry Average Price Paid per Acre	**$ 71**	$62	$77

The decrease in our average working interest in 1990 was primarily due to the purchase of a 60 section licence at Cadotte with two other equal partners rather than a change in our acquisitions policy.

Ulster's average price paid was $108 per acre in 1990 as compared to $69 per acre in 1989. This increase is primarily attributable to our exploratory drilling successes in our major natural gas exploration areas which enabled us to aggressively pursue offsetting acreage.

Land prices within the industry firmed slightly in 1990 and Ulster's average price paid was again above the industry average. This premium is consistent with our exploration strategy of normally bidding only on those lands on which we have already identified a drillable location.

As at December 31, 1990, Ulster's total land holdings were 516,200 gross or 219,800 net acres as compared to 574,900 gross or 202,700 net acres in 1989. Ninety per cent of these holdings are concentrated in Alberta since this is the focus of substantially all of our current exploration activity.

Ulster's undeveloped land holdings increased by 32% to 166,600 net acres in 1990 as compared to 126,200 net acres in 1989. In addition, our average working interest in these lands is now 48% which reflects our aggressive participation in land sales during the last five years.

Ulster's Beaufort Sea interests consist of a 1.5% working interest in the significant discovery area surrounding the Adlartok well which was drilled in 1985 and tested over 4,000 barrels of oil per day. The potential oil field inferred by this well has been attributed with reserves of between 100 to 500 million barrels of oil by the Geological Survey of Canada. Further activity will likely not occur in this area before the year 2000. Nonetheless, its impact on the Company could be significant at that time.

A review of Ulster's land purchases discloses that more than 75% of our undeveloped inventory was acquired during the last four years and that Ulster has invested more than $13,500,000 during this period. Although this amount does not necessarily represent the fair market value of these lands, we are convinced that these lands could not be replaced for this amount today.

LAND HOLDINGS

	Total Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
Alberta	460,200	211,800	329,500	161,900
British Columbia	24,700	6,600	15,300	4,200
Saskatchewan	5,300	1,000	3,300	500
	490,200	219,400	348,100	166,600
Beaufort Sea	26,000	400	–	–
Total	516,200	219,800	348,100	166,600
Average Working Interest (excluding Beaufort Sea)		(43%)		(48%)

RESERVES

Reserve Summary

The Company's oil and natural gas reserves and net future revenues were evaluated by D.L. Paddock & Associates Ltd., independent petroleum engineering consultants. The tables presented herein were compiled from this evaluation.

OIL AND NATURAL GAS RESERVES

	1990				1989			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(mbbls)		(bcf)		(mbbls)		(bcf)	
Proven Reserves								
Balance January 1	**5,043**	**4,353**	**73.3**	**59.9**	4,231	3,719	73.7	60.5
Discoveries and purchases	**114**	**90**	**25.8**	**20.4**	1,407	1,139	5.4	4.2
Production	**(612)**	**(527)**	**(4.9)**	**(4.0)**	(595)	(505)	(4.0)	(3.3)
Dispositions and revisions of prior estimates	**(687)**	**(600)**	**(11.6)**	**(10.5)**	–	–	(1.8)	(1.5)
Balance December 31	**3,858**	**3,316**	**82.6**	**65.8**	5,043	4,353	73.3	59.9
Probable Additional Reserves								
Balance January 1	**1,835**	**1,566**	**16.6**	**13.0**	1,835	1,566	16.6	13.0
Discoveries and purchases	**31**	**24**	**4.8**	**3.7**				
Dispositions and revisions of prior estimates	**(580)**	**(495)**	**(1.3)**	**(1.2)**				
Balance December 31	**1,286**	**1,095**	**20.1**	**15.5**	1,835	1,566	16.6	13.0
Total Reserves December 31	**5,144**	**4,411**	**102.7**	**81.3**	6,878	5,919	89.9	72.9

Ulster's **natural gas reserves** totalled 102.7 billion cubic feet on December 31, 1990. This increase, as described in detail elsewhere in this Report, is primarily the result of our drilling successes at Marten Hills, Rock Island, and Hondo during the year. Seventy per cent of these reserves are concentrated in seven natural gas areas as detailed in our Major Property Summary. Since only two of these areas are currently producing near their deliverability, our potential for future natural gas production growth is excellent.

Oil reserves declined by approximately 1.7 million barrels in 1990. This decrease is primarily due to the sale of our marginal oil properties earlier in the year and the limited amount of drilling activity in 1990. We do not anticipate that crude oil reserve additions will significantly exceed production volumes during the next two to three years based upon the predominance of natural gas projects within our exploration program.

The foregoing reserve volumes are forecast to provide Ulster with over $354 million in net future revenues. These estimates were prepared without consideration for income taxes and other indirect costs such as interest and general and administrative costs, since these costs do not directly impact the future cash flows from our properties.

PRESENT VALUE OF RESERVES

	1990			1989		
	0%	**15%**	**20%**	0%	15%	20%
		(000)			(000)	
Proven	**$268,600**	**$ 92,800**	**$76,900**	$241,300	$80,800	$66,400
Probable	**85,800**	**19,900**	**14,600**	81,100	16,200	11,600
Total	**$354,400**	**$112,700**	**$91,500**	$322,400	$97,000	$78,000

The net future revenues and present values provided were prepared based upon the West Texas Intermediate (WTI) and Western Gas Marketing (WGM) price forecasts detailed below. The prices shown for Ulster represent the average quality adjusted selling prices the Company can expect to receive for its production during the applicable year. These prices reflect the fact that over 90% of the Company's oil production is light gravity crude and that substantially all of our natural gas sales will be made into long-term sales contracts.

PRICE FORECASTS

	Crude Oil			Natural Gas	
	WTI ($US/bbl)	Edmonton ($Cdn/bbl)	Ulster ($Cdn/bbl)	WGM ($Cdn/mcf)	Ulster ($Cdn/mcf)
1991	$23.00	$26.25	$24.08	$1.62	$1.64
1992	24.00	27.39	25.11	1.77	1.78
1993	25.00	28.51	26.04	1.94	1.95
1994	27.00	30.84	28.14	2.18	2.17
1995	29.50	33.77	30.71	2.53	2.53

The reserves attributable to Ulster's major natural gas and crude oil properties are summarized as follows.

MAJOR PROPERTY SUMMARY

Area	Reserves	Percentage Producing 12/31/90	Present Value @ 15%
	(bcf)		(000)
Natural Gas			
Hondo	17.8	0%	$13,100
Marten Hills	16.2	80%	14,600
Rochester	15.3	65%	9,500
Rock Island	6.7	50%	5,800
Majeau	6.7	10%	2,900
Pine	6.3	15%	3,700
Retlaw	5.7	90%	3,000
Other Areas	28.0	40%	12,700
Total Natural Gas	**102.7**	**43%**	**$65,300**
Crude Oil	(mbbls)		
Loon	1,267	100%	$14,200
Wainwright	857	100%	3,400
Retlaw	825	100%	5,200
Slave	569	100%	7,200
Provost	446	100%	4,900
Other Areas	1,180	56% (1)	12,500
Total Crude Oil	**5,144**	**90%**	**$47,400**

(1) The non-producing portion consists of natural gas liquids for reserves not yet tied in. Costs associated with these reserves have been included with natural gas production costs.

Reserve Life Index

Ulster's natural gas reserves would have a remaining production life of 20.9 years if produced at 1990's average production rate as compared to 22.6 years in 1989. This index will likely decline in 1991 with the start-up of our firm production at Marten Hills, Rochester, and Rock Island.

Ulster's crude oil reserves would have a remaining production life of 8.4 years if produced at 1990's average production rate as compared to 11.6 years in 1989. This decreased rate is directly attributable to the sale of our minor properties in 1990 – these properties typically had a proportionately larger reserve base but lower corresponding production rate.

Finding Costs

Ulster typically pursues long-term exploration projects which involve significant land accumulations and offer the potential for major reserve and production additions over a number of years. In addition, the construction of major production facilities and pipelines is often made well in advance of production start-up as is the case with our major natural gas projects, or significantly after the reserves have been discovered in the case of many of our oil prospects. Thus, it is often misleading and difficult to calculate an annual finding cost rate.

In view of the foregoing variables, Ulster uses a dual measurement technique to monitor the efficiency and effectiveness of its exploration programs.

Firstly, we continually assess our ongoing and recently completed projects to ascertain their actual finding and on-stream costs. The results of this assessment of our most recent major oil and natural gas projects discloses that our acquisition, finding, development, and facilities construction costs per unit of developed reserves are as follows:

Slave	$2.49/bbl
Marten Hills	$0.35/mcf
Rochester	$0.26/mcf
Hondo	$0.24/mcf

Secondly, we annually assess the cumulative success of our corporate exploration and acquisition efforts as compared to our total capitalized investment in these activities. This calculation not only discloses our investment per barrel of oil equivalent (natural gas converted to oil on a 10:1 basis), but also highlights any corporate trends.

This calculation discloses that Ulster had invested the following amounts, excluding the cost of our significant undeveloped land inventory, to acquire our year end reserve balances:

1990	$5.52/boe
1989	$4.66/boe
1988	$4.58/boe

Although this rate has increased during the last three years, this change is primarily due to our significant investment in new production facilities rather than a change in our overall corporate exploration success rate. Accordingly, we expect this rate to decline as we fully exploit our substantial recent investment in new natural gas facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Production

In late 1989, Ulster undertook a program to critically assess all of its producing properties to ascertain those which were consistent with our current operating philosophies and strategies. This review identified approximately 50 properties which represented either very minor working interests or marginal profit contributions to the Company. These properties were put up for sale early in 1990 and substantially all of them were sold during the year. Although these properties represented approximately 200 barrels of oil and over one million cubic feet of natural gas production per day, they contributed very little to Ulster's bottom line and required a disproportionate amount of our time. Accordingly, these sales will allow us to concentrate our efforts on our major and most profitable property interests. This review and rationalization program will be an ongoing part of our operations.

Natural Gas Production

Natural gas production volumes increased 23% to average 13.5 million cubic feet per day in 1990, despite some of the most difficult natural gas transportation problems the industry has ever experienced. Although these transportation problems are expected to continue in the near term, our new firm transportation arrangements at Marten Hills, Rock Island, and Rochester allowed Ulster to increase its average daily production volumes to over 25 million cubic feet per day in December 1990. This rate will be maintained during the first quarter of 1991 and should then exceed 30 million cubic feet per day for the balance of the year due to our previously mentioned plant expansion at Marten Hills in March 1991 and the new firm transportation we expect to receive on November 1, 1991.

As noted in the table below, Marten Hills (4.1 mmcf/day), Rochester (1.8 mmcf/day), and Baptiste (1.5 mmcf/day) were the largest natural gas production areas for the Company in 1990. Although the first two areas will remain at the top of this list with higher volumes in 1991, the third spot will be taken up by Rock Island in 1991. Natural gas production at Retlaw declined due to the reinjection of over one mmcf/day of solution gas which commenced in July 1990.

ANNUAL NATURAL GAS PRODUCTION

	1990		1989		1988	
	(mmcf)	(mmcf/d)	(mmcf)	(mmcf/d)	(mmcf)	(mmcf/d)
Marten Hills	**1,519**	**4.1**	706	1.9	–	–
Rochester	**645**	**1.8**	–	–	–	–
Baptiste	**529**	**1.5**	671	1.8	–	–
Retlaw	**447**	**1.2**	632	1.7	758	2.1
Majeau	**359**	**1.0**	323	0.9	350	1.0
Others	**1,417**	**3.9**	1,653	4.6	1,190	3.2
	4,916	**13.5**	3,985	10.9	2,298	6.3
	(+23%)		(+73%)		(+85%)	

Ulster's Alberta industrial sales increased to 5 mmcf/d in 1989 and constituted the main component of our natural gas sales for the year. System sales declined in 1990 to average 3.9 mmcf/d which is consistent with the reduced takes by these purchasers and the maturity of our related reserve base. Spot sales were also lower in 1990 due to transportation restrictions within the Province. These restrictions are expected to remain in place until the major proposed extra-provincial pipeline expansions have been completed. In November 1990, Ulster commenced natural gas sales at 6 mmcf/d to a co-generation facility in Massachusetts. This volume is expected to average 8 mmcf/d in 1991.

NATURAL GAS MARKETS (MMCF/D)

	1990		1989		1988	
Industrial Sales	**5.0**	**(37%)**	3.0	(28%)	1.6	(25%)
Systems Sales	**3.9**	**(29%)**	4.1	(38%)	4.7	(75%)
Spot Sales	**3.3**	**(24%)**	3.8	(34%)	–	
U.S. Co-generation	**1.3**	**(10%)**	–		–	
	13.5		10.9		6.3	

Since it is impossible to predict future market trends, Ulster's marketing strategy is based upon achieving a balanced long-term exposure in each of the major natural gas market sectors in North America. Accordingly, our anticipated sales in 1994-95 will be evenly allocated among Alberta Industrial, eastern Canada, north-eastern U.S. Co-generation, and California markets.

Natural Gas Sales Projections

November 1, 1990 was the most significant date in Ulster's natural gas program since its inception in late 1986, as this date marked our first receipt of new firm transportation on the Nova pipeline system in Alberta and the start-up of our first long-term export contract for natural gas. Thus, Ulster has paid its start-up dues for entry into the natural gas game and we can now look forward to reaping the benefits of our considerable investment through significant and predictable sales increases for a number of years.

Transportation

Natural gas production, deliverability and natural gas sales are not interchangeable terms in natural gas markets in Canada today. Although a company may have significant reserves and production deliverability, its actual sales volume will be significantly curtailed if it does not have firm transportation space in Alberta. The current waiting period for such space is two to three years.

Ulster's cumulative firm transportation space within Alberta is as follows: January 1, 1990 – 5 mmcf/d; January 1, 1991 – 28 mmcf/d; January 1, 1992 – 35 mmcf/d; and January 1, 1993 – 60 mmcf/d. In addition, we have applied for our required transportation needs with TransCanada PipeLines Ltd. and Pacific Gas Transmission to support these Alberta transportation volumes.

Markets

Natural gas sales are also limited by a company's access to available markets. In today's marketplace, a company can either sell its natural gas on a spot basis (short-term) or under a long-term supply contract. Spot markets are typically subject to extreme price volatility and transportation bottlenecks. Accordingly, this is a market of last resort for both producers and purchasers of natural gas. Long-term contracts, on the other hand, provide stability and assurance of markets which enables a company to commit to firm transportation space and then develop its reserves in an orderly manner. Purchasers under these contracts are prepared to pay a premium price for these assured long-term supplies.

Ulster is committed to selling its reserves under long-term contractual arrangements on a balanced basis into the major market sectors in North America. We believe that this makes sound business sense since the majority of our new natural gas reserves are expected to have a 10 to 20 year production life. Accordingly, we are aggressively pursuing and entering into new sales contracts which will provide us with long-term access into each of the major natural gas market areas in North America.

Summary

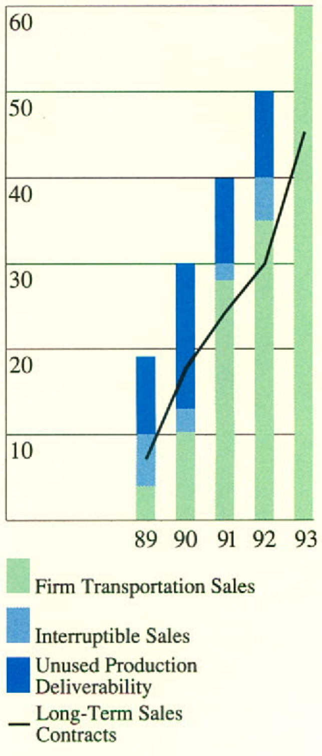
Ulster's firm sales, interruptible sales, unused production deliverability, and long-term sales commitments have been plotted on the offsetting graph to illustrate the expected interaction of these factors through 1993. This graph discloses that:

i) Ulster's firm transportation sales will increase from 10.2 million cubic feet per day in 1990 to 60 million cubic feet per day in 1993;

ii) Interruptible sales will become an insignificant percentage of our total sales in 1993; and

iii) Long-term sales contracts will increase from 7 million cubic feet per day in 1989 to 45 million cubic feet per day in 1993. It is expected that such contracts will represent approximately 75% of Ulster's total sales.

Natural Gas Projections
(million cubic feet per day)



Outlook

Much has been said and written about the state of natural gas markets in North America, and Alberta in particular, during the Spring of 1991. We believe that price volatility for spot natural gas sales is an inherent phenomenon of this market and, accordingly, producers and buyers should only be involved in this market on a special situations or a last resort basis.

Long-term marketing arrangements, on the other hand, are once again increasing in popularity due to pipeline constraints between Alberta producers and the major consumers in California and the northeastern United States, and the energy security scare provided by the recent Middle East crisis. Fortunately, considerable progress is now being made in resolving these critical pipeline bottlenecks and, as such, we expect to see a true North American natural gas market evolving within the next three years where long-term supply and demand, not pipeline constraints, will determine prices.

In conclusion, we believe that those companies which have the financial patience to wait for their turn in the transportation lines, and have the marketing capability to bring their reserves, transportation and contractual arrangements together in a timely and efficient manner, will not only generate reasonable profits in the short-term but will be solidly positioned to benefit from the inevitable market recognition that natural gas offers superior stability of long-term supply and environmental benefits as compared to all other energy sources in North America.

Oil Production

Oil production volumes increased marginally in 1990 to average 1,678 barrels per day. This increase was limited due to the sale of substantially all of the Company's marginal producing properties early in the year and the lack of any significant acquisitions due to recent price volatility.

Loon (405 bbls/day), Slave (267 bbls/day), and Provost (215 bbls/day) were again Ulster's largest production areas in 1990. Production from each of these areas is light gravity crude, as is 90% of Ulster's total crude oil production.

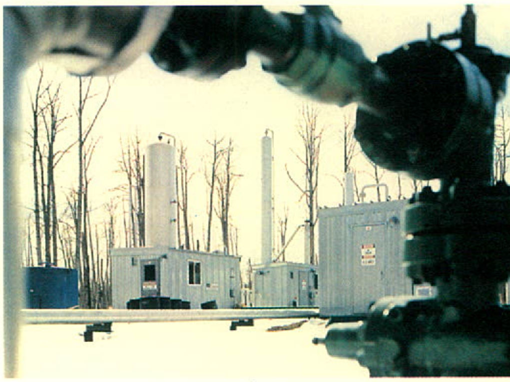
ANNUAL OIL PRODUCTION

	1990		1989		1988	
	(bbls)	(bbls/d)	(bbls)	(bbls/d)	(bbls)	(bbls/d)
Loon	**147,700**	**405**	172,100	472	192,300	527
Slave	**97,400**	**267**	55,700	153	–	–
Provost	**78,200**	**215**	45,500	125	20,000	55
Retlaw	**47,300**	**130**	39,700	109	34,500	95
Wainwright	**41,800**	**115**	38,200	105	45,700	125
Others	**200,000**	**546**	243,800	666	187,300	510
	612,400	**1,678**	595,000	1,630	479,800	1,312
	(+3%)		(+25%)		(+31%)	

Financial Highlights

Ulster's financial results for the year ended December 31, 1990 were highlighted as follows:

- **Net earnings** increased 42% to $4,757,000 ($0.15 per Common Share) as compared to $3,357,000 ($0.11 per Common Share) in 1989;
- **Cash provided by operations** increased 36% to $13,561,000 ($0.42 per Common Share) as compared to $9,989,000 ($0.34 per Common Share) in 1989; and
- **Production revenues** increased 20% to $19,454,000 as compared to $16,159,000 in 1989.



Each of these amounts represents a record total for Ulster and 1990 marks the ninth consecutive year that the Company has reported a profit from its operations.

Balance Sheet

A review of Ulster's balance sheet as at December 31, 1990, reveals a solid capital base which will enable the Company to continue to aggressively expand its future operations.

Ulster's net investment in **oil and natural gas properties** reached $100 million in 1990. These properties, as described in detail in the Reserves section of this Report, are expected to provide the Company with net future revenues for reinvestment of over $350 million.

Ulster's total **book capitalization** also reached $100 million in 1990 as detailed in the capitalization table below.

CAPITALIZATION

	1990		1989		1988	
			(000)			
Long-term debt	**$ 10,571**	**(11%)**	$13,183	(15%)	$ 7,882	(10%)
Deferred income taxes	**5,405**	**(5%)**	3,441	(4%)	2,313	(3%)
Deferred revenue	**206**	**(–)**	263		386	(1%)
Shareholders' equity	**84,738**	**(84%)**	69,510	(81%)	64,081	(86%)
Total	**$100,920**		$86,397		$74,662	
After tax return on shareholders' equity	**6.8%**		5.2%		2.8%	

As at December 31, 1990, the Company's **long-term debt** totalled $10,571,000. Of this total, $5,000,000 is represented by 8% convertible debentures which were issued in 1989 and are due and payable in 2004. Effective August 17, 1990, $5,475,000 of the Company's previously outstanding 7% convertible debentures were converted into 2,113,897 Common Shares of the Company and the remaining $25,000 were redeemed for cash.

Ulster's **shareholders' equity** totalled $84,738,000 as at December 31, 1990 and represented 84% of the Company's capitalization. In addition to the Common Shares issued on conversion of the Company's convertible debentures, Ulster also committed to issue 1,336,124 Common Shares pursuant to flow-through share agreements for a total consideration of $4,776,000. These agreements took advantage of the last of the CEIP grant program which expired in February 1990.

Ulster's after-tax return on opening shareholders' equity increased to 6.8% in 1990. This rate is expected to increase steadily in the future as a greater portion of our long-term exploration projects are brought on-stream.

Ulster has 1,528,834 **purchase warrants** outstanding which entitle the purchaser to acquire 1.5 Common Shares of the Company for a consideration of $5.00 on or before November 30, 1991.

Assuming conversion of the outstanding convertible debentures and exercise of the aforementioned warrants, Ulster would have 37.8 million Common Shares outstanding and proforma shareholders' equity of over $97 million.

Statement of Earnings

Production revenues totalled $19,454,000 in 1990, a 20% increase over the comparable amount for 1989. This increase is primarily due to increased natural gas production volumes, and higher crude oil selling prices.

Natural gas production volumes increased 23% to average 13.5 million cubic feet per day in 1990, despite some of the most difficult natural gas transportation problems the industry has ever experienced. Although these transportation problems are expected to continue in the near term, our firm new transportation arrangements will allow Ulster to more than double its natural gas production and sales volumes in 1991. Natural gas prices increased to $1.40 as compared to $1.35 in 1989. This increase is a function of the start-up of our new long-term sales contracts rather than improved pricing fundamentals within the natural gas industry. Accordingly, we expect our prices to improve modestly again in 1991 as more of our natural gas is sold under long-term sales contracts.

Oil production volumes increased nominally in 1990 to average 1,678 barrels per day. This increase was limited due to the sale of of the Company's marginal oil producing properties early in the year. The average selling price for Ulster's crude oil production reached $23.97 per barrel in 1990 as compared to $19.91 in 1989. This increase was directly attributable to the recent Middle East crisis.

Royalty expenses for both oil and natural gas increased marginally in 1990 on a percentage basis. This increase is is in response to the quality of our remaining oil reserves and the high per well production levels of our new natural gas wells. This rate is expected to increase marginally again in 1991. **Alberta Royalty Tax Credits** of $1,530,000 were recovered in 1990 as compared to $1,208,000 in 1989. Ulster will be at the expected corporate limit of $1,500,000 in 1991.

Production expenses for both crude oil and natural gas declined on a per unit basis in 1990. As such, our total production expenses for the year were, in fact, lower than the comparable amount in 1989 despite our production volume increases. In the case of our natural gas production, we expect per unit expenses to decline significantly again in 1991 as our new production will be processed through Company owned facilities. On the crude oil side, production expenses declined in 1990 due to the full year's operation of our Loon battery and the sale of our higher operating cost and marginal properties in 1990. Expenses for 1991 will likely remain constant, as the impact of inflation offsets the majority of the savings we will realize from the streamlining of our operations.

The net impact of the foregoing factors was that Ulster's net production revenue not only increased on a per unit basis due to higher selling price, but that it also increased on a percentage of selling price basis due to lower production expenses for the second consecutive year. This latter trend can be expected to continue in 1991.

UNIT OF PRODUCTION DATA

	1990		1989		1988	
Barrel of Oil						
Selling price	**$ 23.97**	**100%**	$ 19.91	100%	$ 17.24	100%
Royalties	**(3.64)**	**(15%)**	(2.73)	(14%)	(2.68)	(15%)
ARTC	**1.09**	**4%**	1.01	5%	1.25	7%
Production expenses	**(4.49)**	**(18%)**	(4.90)	(24%)	(5.51)	(32%)
Net production revenue	**$ 16.93**	**71%**	$ 13.29	67%	$ 10.30	60%
Mcf of Natural Gas						
Selling price	**$ 1.40**	**100%**	$ 1.35	100%	$ 1.40	100%
Royalties	**(0.29)**	**(21%)**	(0.25)	(18%)	(0.25)	(18%)
ARTC	**0.17**	**12%**	0.15	11%	0.14	10%
Production expenses	**(0.32)**	**(22%)**	(0.39)	(29%)	(0.64)	(46%)
Net production revenue	**$ 0.96**	**69%**	$ 0.86	64%	$ 0.65	46%

Ulster's **net production revenues** were derived 69% from oil sales and 31% from natural gas sales in 1990, as detailed below. We expect to derive 50% of our net production revenues from natural gas sales in 1991.

NET PRODUCTION REVENUES

	1990		1989		1988	
			(000)			
Oil	**$10,370**	**(69%)**	$ 8,158	(70%)	$5,324	(77%)
Natural Gas	**4,745**	**(31%)**	3,529	(30%)	1,608	(23%)
Total	**$15,115**		$11,687		$6,932	

General and administrative expenses increased to $615,000, net of recoveries of $1,032,000 in 1990, as compared to $587,000, net of recoveries of $994,000 in 1989.

Interest expense declined to $1,234,000 in 1990 as our long-term debt dropped from $13,183,000 on December 31, 1989 to $10,571,000 on December 31, 1990. This reduction in long-term debt was primarily due to the conversion of our 7% Debentures into Common Shares during the year.

Depletion and depreciation expense increased to $6,828,000 in 1990 as compared to $5,377,000 in 1989. This increase is primarily the result of our significant investment in new natural gas facilities during the past two years and the sale of our marginal properties during the year.

Income tax expense totalled $2,132,000 in 1990 and represents an effective rate of 31%, as compared to 28% in 1989. Of this amount, $156,000 was currently payable as Large Corporations Tax. Ulster does not expect to pay any significant amount of current income taxes within the next five years due to the availability of the following Canadian Income Tax pools.

CANADIAN INCOME TAX POOLS

	1990	1989	1988
		(000)	
Canadian Exploration Expense	**$37,200**	$32,400	$25,500
Canadian Development Expense	**4,700**	5,000	3,500
Undepreciated Capital Costs	**10,600**	10,300	9,700
Canadian Oil and Gas Property Expense	**28,100**	24,500	25,600
Earned Depletion Expense	**6,700**	6,700	6,700
	$87,300	$78,900	$71,000

Statement of Changes in Financial Position

Cash provided by operations increased 36% to $13,561,000 ($0.42 per Common Share) as compared to $9,989,000 ($0.34 per Common Share) in 1989. This increase, as previously described in detail, is primarily due to higher natural gas production volumes, higher crude oil selling prices, and lower operating costs.

Net additions to oil and natural gas properties totalled $20,651,000 in 1990 and $17,424,000 in 1989. These additions were financed as follows.

CAPITAL FINANCING

	1990		1989		1988	
			(000)			
Cash provided from operations	**$13,561**	**(66%)**	$ 9,989	(58%)	$ 6,254	(42%)
Long-term debt	–		5,301	(30%)	2,382	(16%)
Issue of Common Shares	**7,090**	**(34%)**	1,945	(11%)	–	
Working capital	–		189	(1%)	6,114	(42%)
	$20,651		$17,424		$14,750	

Capital Resources and Liquidity

As evidenced by the foregoing discussions, Ulster has built and consistently maintained a solid capital structure which is based primarily upon shareholders' equity and a minimal amount of long-term debt.

In order to achieve our desired corporate growth rates in the 1990's, however, we expect that our annual capital expenditures will exceed the related year's cash flows by approximately 20 to 25%. This deficiency can be financed from additional bank advances and still allow Ulster to keep its long-term debt at less than one year's cash flows.

The expected exercise of our outstanding Warrants and/or the conversion of our outstanding Convertible Debentures would, however, allow us to finance this growth without any increase in our present level of long-term debt.

Financial Data Per Barrel

The table presented below has been compiled from the detailed financial and production data included in the applicable sections of this Report to illustrate the interaction of Ulster's financial results and our production volumes converted into equivalent barrels of crude oil (natural gas converted to oil on a ratio of 10:1).

FINANCIAL DATA PER BARREL OF PRODUCTION

	1990	1989	1988
Selling price	**$ 19.56**	$ 17.70	$ 16.93
Royalties paid	**(3.32)**	(2.65)	(2.62)
ARTC	**1.38**	1.22	1.22
Other income	**0.41**	0.25	0.63
	18.03	16.52	16.16
Production expenses	**(3.93)**	(4.50)	(5.76)
General and administration	**(0.56)**	(0.59)	(0.92)
Interest	**(1.12)**	(1.31)	(0.66)
Large corporations tax	**(0.14)**	(0.07)	–
	(5.75)	(6.47)	(7.34)
Cash flow per barrel	**12.28**	10.05	8.82
Depreciation and depletion	**(6.18)**	(5.41)	(5.03)
Deferred income taxes	**(2.16)**	(1.26)	(1.35)
Net earnings per barrel	**$ 3.94**	$ 3.38	$ 2.44

This table clearly demonstrates how Ulster's positive operating cost structure has contributed to our increased cash flows during the last two years. Furthermore, we expect our operating costs of $5.75 per barrel to decline again in 1991, as our production volumes increase significantly, our administrative and interest expenses increase nominally, and our production expenses continue to decline on a per barrel basis.

Stock Market Activity

Ulster Petroleums Ltd. is one of the few independent Canadian exploration companies in our industry as evidenced by the fact that no shareholder owns 10% or more of our outstanding Common Shares. Management and the directors of the Company own approximately 5% of Ulster's outstanding Common Shares.

Ulster's Common Shares are owned by more than 5,700 registered shareholders and by approximately 3,300 additional shareholders through their brokerage accounts.

Ulster's Common Shares are listed on The Toronto Stock Exchange and the Company was once again one of the most active oil and natural gas stocks in 1990 with a volume of over 17 million shares traded. Our share trading activity for the last three years was as follows.

STOCK MARKET ACTIVITY

	1990	1989	1988
Open	**$3.10**	$1.84	$2.10
High	**$3.95**	$3.20	$2.69
Low	**$2.40**	$1.75	$1.55
Close	**$3.30**	$3.10	$1.84
Volume	**17,468,000**	22,468,000	6,651,000

Ulster's activities are actively followed and reported upon by all of the major brokerage firms in Canada. If you have any questions concerning the future market prospects of Ulster, please contact your registered representative.

MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements and all other financial and operating data presented in this Annual Report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the external auditors and has reported its findings to the Board of Directors.

The Board of Directors, on the recommendation of the Audit Committee, has approved the consolidated financial statements and related information presented in this Annual Report.

T. Robert Woima, C.A.
Vice-President, Finance

AUDITORS' REPORT

We have audited the consolidated balance sheets of Ulster Petroleums Ltd. as at December 31, 1990 and 1989 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
March 22, 1991

CONSOLIDATED BALANCE SHEETS

December 31, 1990 and 1989

	1990	1989
Assets		
Current assets		
Cash	**$ 62,000**	$ 36,000
Accounts receivable	**6,441,000**	4,760,000
	6,503,000	4,796,000
Oil and natural gas properties (note 2)	**100,078,000**	86,255,000
	$ 106,581,000	$ 91,051,000
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 5,661,000**	$ 4,654,000
Bank advances (note 3)	**5,571,000**	2,683,000
Convertible debentures (note 4)	**5,000,000**	10,500,000
Deferred revenue	**206,000**	263,000
Deferred income taxes	**5,405,000**	3,441,000
	21,843,000	21,541,000
Shareholders' equity		
Share capital (note 5)	**70,082,000**	61,535,000
Common shares reserved for issuance (note 5)	**1,924,000**	–
Retained earnings	**12,732,000**	7,975,000
	84,738,000	69,510,000
	$ 106,581,000	$ 91,051,000

Signed on behalf of the Board

D. Dyal Director

Dual C Martin Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31, 1990 and 1989

	1990	1989
Revenue		
Production	**$ 19,454,000**	$ 16,159,000
Royalty and other	**451,000**	255,000
	19,905,000	16,414,000
Expenses		
Production	**4,339,000**	4,472,000
General and administrative	**615,000**	587,000
Interest	**1,234,000**	1,299,000
Depletion and depreciation	**6,828,000**	5,377,000
	13,016,000	11,735,000
Earnings before income taxes	**6,889,000**	4,679,000
Income taxes (note 6)		
Large corporations tax	**156,000**	67,000
Deferred	**1,976,000**	1,255,000
	2,132,000	1,322,000
Net earnings	**4,757,000**	3,357,000
Retained earnings, beginning of year	**7,975,000**	4,618,000
Retained earnings, end of year	**$ 12,732,000**	$ 7,975,000
Net earnings per share	**$ 0.15**	$ 0.11

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1990 and 1989

	1990	1989
Cash provided by operations		
Net earnings	**$ 4,757,000**	$ 3,357,000
Add items not requiring an outlay of cash		
Depletion and depreciation	**6,828,000**	5,377,000
Deferred income taxes	**1,976,000**	1,255,000
	13,561,000	9,989,000
Cash provided by (used in) financing activities		
Bank advances	**2,888,000**	301,000
Convertible debentures	**(5,500,000)**	5,000,000
Common shares, net of expenses and shares purchased	**10,459,000**	1,945,000
Decrease in deferred revenue	**(57,000)**	(123,000)
Changes in other current accounts	**(674,000)**	292,000
	7,116,000	7,415,000
Cash used in (provided by) investing activities		
Additions to oil and natural gas properties	**22,556,000**	19,082,000
Proceeds from sale of oil and natural gas properties	**(1,905,000)**	(1,658,000)
	20,651,000	17,424,000
Net increase (decrease) in cash	**26,000**	(20,000)
Cash, beginning of year	**36,000**	56,000
Cash, end of year	**$ 62,000**	$ 36,000
Cash provided by operations per share (note 1)	**$ 0.42**	$ 0.34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1990 and 1989

1. Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

(b) Oil and Natural Gas Properties

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all net costs related to the exploration for and development of oil and natural gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical expenditures, lease rentals, costs of drilling productive and non-productive wells, and overhead expenses directly related to exploration activities. Depletion of oil and natural gas properties and depreciation of production equipment are calculated on the unit of production method based upon estimated proven reserves as determined by independent engineers. Reserves and production are calculated before royalties and are converted to equivalent units of energy.

The Company applies a ceiling test to its cost centre to ensure that capitalized costs do not exceed estimated future net revenues from production of proven reserves plus the costs of significant unproved properties, less impairment. Future net revenues are evaluated at year end prices and costs and take account of future years' anticipated general and administrative expenses, interest expense and income taxes.

Proceeds of property sales are normally credited to the net book value of oil and natural gas properties without recognizing any gain or loss on disposition, however, gains or losses on major property sales are recognized in the statement of earnings.

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

Asset	Rate/Method
Other equipment	5-30% declining balance
Leasehold improvements	Over the term of the lease

(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.

(d) Joint Interest Operations

These financial statements reflect only the Company's proportionate interest in oil and natural gas exploration and production activities conducted jointly with others.

(e) Net Earnings and Cash Provided by Operations Per Share

Net earnings and cash provided by operations per share are calculated using the weighted monthly average number of shares outstanding during 1990 of 32,103,212 and during 1989 of 29,518,250. Assuming the exercise of the stock options and warrants, and the conversion of the debentures at the beginning of each year, there would be no dilution in earnings per share.

2. Oil and Natural Gas Properties

1990	**Cost**	**Accumulated Depletion and Depreciation**	**Net Book Value**
Oil and natural gas properties	**$ 101,718,000**	**22,468,000**	**79,250,000**
Production equipment	**25,441,000**	**5,215,000**	**20,226,000**
Other equipment	**1,085,000**	**483,000**	**602,000**
	$ 128,244,000	**28,166,000**	**100,078,000**

1989	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas properties	$ 86,019,000	17,167,000	68,852,000
Production equipment	20,630,000	3,843,000	16,787,000
Other equipment	1,150,000	534,000	616,000
	$ 107,799,000	21,544,000	86,255,000

Government grants amounting to $699,000 were treated as a reduction in the cost of the related exploration and development expenditures in 1989.

Geological and geophysical expenses and related administrative expenses totalling $1,221,000 in 1990 and $963,000 in 1989 were capitalized.

The cost of unproved properties amounting to $14,100,000 in 1990 and $8,300,000 in 1989 have been excluded from the depletion calculation.

3. Bank Advances

Bank advances bear interest at bank prime rate plus 1/4% and are secured by a debenture on the assets of the Company as well as an assignment of accounts receivable and oil and natural gas properties. Although the bank reserves the right to request payment of these operating advances on demand, no principal payments are scheduled providing that certain conditions of the bank agreement continue to be satisfied.

4. Convertible Debentures

The Company has $5,000,000 of fifteen year 8% convertible debentures outstanding. The debentures are convertible at the option of the holder into common shares at anytime prior to the close of business on November 1, 1999 at a conversion price of $3.25 per common share. The convertible debentures are not redeemable prior to November 2, 1992 but may be redeemed at par, plus a premium of 5%, thereafter and prior to November 1, 1999 if the Company's common shares trade at a price greater than $4.06. Subsequent to November 1, 1999, the Company can redeem the convertible debentures at par.

The Company is required to purchase, by way of mandatory sinking fund, in each of the years 2000 to 2004, 20% per annum of the convertible debentures outstanding on November 2, 1999.

The maximum number of common shares issuable upon conversion of the 8% convertible debentures is 1,538,462.

5. Share Capital

	1990	1989
Authorized		
Common shares without nominal or par value	unlimited	unlimited
Convertible first preferred shares	5,000,000	5,000,000
Issued		
Common Shares	$70,082,000 (33,389,354 shares)	$61,535,000 (30,362,587 shares)

The stated capital of the Company is $68,996,000 in 1990 and $60,434,000 in 1989.

(a) Private Placements

In 1990 the Company committed to privately place 1,336,124 common shares, pursuant to flow-through share agreements for a total consideration of $4,776,000. As at December 31, 1990, the Company had issued 787,148 common shares for a total consideration of $2,837,000 net of expenses and deferred income taxes of $15,000. An additional $1,924,000 of expenditures were incurred by February 28, 1991 to flow-through the remaining 548,976 common shares. In conjunction with these issues, the investors of the Company have assigned their entitlement to government grants of $1,279,000 to the Company. This amount has been included in the total consideration.

In 1989, 600,000 common shares were issued pursuant to a flow-through agreement, for a total consideration of $1,998,000 net of expenses and deferred income taxes of $2,000. Government grants of $600,000 were assigned by the investor to the Company and have been included in the total consideration.

(b) Convertible Debentures

Effective August 17, 1990, $5,475,000 of the Company's outstanding 7% Convertible Debentures were converted into 2,113,897 common shares and the remaining $25,000 were redeemed pursuant to the terms of the Debenture.

(c) Stock Options

The Company has reserved 1,000,000 common shares for granting under option to full time employees and directors. As at December 31, 1990 options on 736,874 common shares were outstanding and are exercisable, at prices ranging from $1.50 to $3.00 per share, to a maximum of 20% per annum on a cumulative basis. Options aggregating 30,000 shares terminate in 1995, 98,874 in 1996, 133,000 in 1997, 15,000 in 1998 and 460,000 in 2000. During 1990, 125,730 common shares were issued on options for a total cash consideration of $235,000 and options on 15,270 shares expired. During 1989, 305,428 common shares were issued on options for a total cash consideration of $233,000, and options on 80,698 shares expired.

(d) Normal Course Issuer Bid

In 1990, 8 common shares were returned to treasury and cancelled. In 1989, 2,004 common shares were returned to treasury and cancelled.

(e) Warrants

The Company has 1,528,834 common share purchase warrants outstanding. Each warrant entitles the holder to acquire 1.5 common shares for a consideration of $5.00 on or before November 30, 1991.

6. Income Taxes

The financial statement provision for income taxes differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rate to the Company's earnings before income taxes. This difference results from the following items:

	1990	1989
Computed "expected" income tax expense	**$ 3,020,000**	$ 2,051,000
Increase (decrease) in taxes resulting from		
Royalties and other payments to provincial governments	**1,287,000**	877,000
Non-deductible depletion and other expenses	**143,000**	481,000
Resource allowance	**(1,618,000)**	(1,234,000)
Depletion allowance	**(187,000)**	(391,000)
Alberta royalty tax credit	**(669,000)**	(529,000)
Large corporations tax	**156,000**	67,000
	$ 2,132,000	$ 1,322,000

Oil and natural gas properties with a net book value of $13,573,000 in 1990 and $11,844,000 in 1989 have a nil cost for income tax purposes. This difference arises primarily as a result of the purchase of assets with a nominal value for income tax purposes and issuance of flow-through common shares.

FIVE YEAR REVIEW

	1990	1989	1988	1987	1986
Daily Production					
Oil (barrels per day)	**1,678**	1,630	1,312	1,002	802
Natural Gas (thousand cubic feet per day)	**13,500**	10,900	6,300	3,400	1,700
Reserves (Proved and Probable)					
Oil (million barrels)	**5.1**	6.9	5.9	7.2	4.4
Natural Gas (billion cubic feet)	**102.7**	89.9	90.1	72.8	30.2
Statement of Earnings			(000 omitted)		
Production revenue	**$ 19,454**	16,159	11,019	9,780	5,896
Royalty and other income	**451**	255	447	547	458
	19,905	16,414	11,466	10,327	6,354
Production expenses	**4,339**	4,472	4,087	2,563	1,707
General and administrative	**615**	587	656	432	398
Interest	**1,234**	1,299	469	402	608
	6,188	6,358	5,212	3,397	2,713
Depletion and depreciation	**6,828**	5,377	3,570	2,905	2,343
Provision for income taxes	**2,132**	1,322	956	1,485	384
Net earnings	**$ 4,757**	3,357	1,728	2,540	914
Statement of Changes in Financial Position					
Cash provided from operations	**$ 13,561**	9,989	6,254	6,930	3,641
Additions to oil and gas properties	**20,651**	17,424	14,750	8,717	5,057
Issue of shares	**10,459**	1,945	(39)	25,744	57
Balance Sheet					
Oil and gas properties	**$100,078**	86,255	74,208	63,028	40,618
Long-term debt	**10,571**	13,183	7,882	5,500	4,900
Shareholders' equity	**84,738**	69,510	64,081	62,392	34,172
Common Shares Outstanding					
Year end	**33,389**	30,363	29,459	29,435	15,894
Weighted average	**32,103**	29,518	29,437	18,492	15,490

CORPORATE INFORMATION

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CEDA International Ltd.
Calgary, Alberta

Mr. Roy R. Schwartz
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Imasco Limited
Montreal, Quebec

Mr. Donne C. Traxel
President
Ulster Petroleums Ltd.
Calgary, Alberta

Officers and Senior Personnel

Donne Traxel
President

John Frank
Vice President, Operations

Cedric Stapleton
Vice President, Exploration

Bob Woima
Vice President, Finance

Brad Crowe
Land Manager

Judy Stripling
Controller

Anne Camroux
Secretary

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