

1986

WESTGROWTH PETROLEUMS LTD.
Suite 1400, 144 - 4th Avenue S.W.
Calgary, Alberta, T2P 3N4

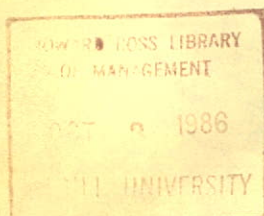
NOTICE OF ANNUAL GENERAL MEETING AND
SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Shareholders of WESTGROWTH PETROLEUMS LTD. (the "Corporation") will be held at Salon A, The Delta Bow Valley Hotel, 209 - 4th Avenue S.E., Calgary, Alberta, on October 6, 1986 at 11:00 a.m., Calgary time, for the following purposes, namely:

1. to receive and consider the report of the directors and the financial statements of the Corporation for the year ended December 31, 1985 and the Auditors' Report thereon;
2. to elect directors for the ensuing year;
3. to appoint auditors for the ensuing year and to authorize the directors to fix their remuneration as such;
4. to consider and, if thought fit, to adopt a resolution ("Resolution No. 1") approving the grant of stock options to Dr. Phillip M. Sigmund, a director of the Corporation;
5. to consider and, if thought fit, to adopt a resolution ("Resolution No. 2") approving the Conveyance Agreement made June 11, 1986 between the Corporation and Heli-Union B.E.A.S. Limited;
6. to consider and, if thought fit, to adopt a special resolution ("Special Resolution No. 1") approving a reduction on the financial statements of the capital account of the common shares of the Corporation; and
7. to transact such other business as may properly be brought before the meeting or any adjournment thereof.

NOTICE IS ALSO HEREBY GIVEN that a Special General Meeting of the Shareholders of the Corporation will be held at Salon A, The Delta Bow Valley Hotel, 209 - 4th Avenue S.E., Calgary, Alberta, on October 6, 1986 immediately following the termination or adjournment of the aforementioned Annual General Meeting, for the following purposes, namely:

1. to consider and, if thought fit, to adopt, by separate poll of the votes of the common shares and the first preferred shares, a special resolution ("Special Resolution No. 2") approving a Plan of Arrangement under Section 186 of the Business Corporations Act (Alberta) as contemplated by an Arrangement Agreement between the Corporation and Helicopter Rentals Limited and authorizing the



directors of the Corporation to take all steps necessary to complete such transaction.

The Plan of Arrangement and Arrangement Agreement are described in the Information Circular and Proxy Statement which is attached to this Notice. A copy of the Arrangement Agreement, with the Plan of Arrangement attached as Schedule "A" thereto, and Special Resolutions Nos. 1 and 2 are attached to said Information Circular and Proxy Statement.

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE URGED TO FILL IN, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE SELF ADDRESSED ENVELOPE PROVIDED. IN ORDER TO BE VALID AND ACTED UPON, FORMS OF PROXY MUST REACH NATIONAL TRUST COMPANY, LIMITED AT ITS OFFICES AT 1008, 324 - 8th AVENUE S.W., CALGARY, ALBERTA T2P 3B2, NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING. SHAREHOLDERS ARE CAUTIONED THAT THE USE OF THE MAILS TO TRANSMIT PROXIES IS AT EACH SHAREHOLDER'S RISK.

Dated at Calgary, Alberta this 15th day of September, 1986.

BY ORDER OF THE BOARD OF DIRECTORS

(signed)

JOHN CHAN WONG
Secretary

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that a Petition has been filed by Westgrowth Petroleums Ltd. ("Westgrowth") for an Order approving a proposed Plan of Arrangement under Section 186 of the Business Corporations Act of Alberta, which Plan of Arrangement is described in greater detail in the Information Circular and Proxy Statement accompanying this Notice.

AND NOTICE is further given that the said Petition is directed to be heard before the Honourable Mr. Justice W. K. Moore of the Court of Queen's Bench of Alberta at the Court House, 611 - 4th Street S.W., Calgary, Alberta, on Tuesday, the 6th day of October, 1986 at the hour of 1:30 o'clock in the afternoon (Calgary time), or so soon thereafter as counsel may be heard. Any shareholder of Westgrowth desiring to support or oppose the making of an Order on the said Petition may appear at the time of the hearing in person or by counsel for that purpose. If you do not attend, either in person or by counsel, at that time, the Court may approve the Plan of Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice to you.

AND NOTICE is further given that the Court has given directions as to the calling of a special general meeting of shareholders for the purpose of considering and voting upon the Plan of Arrangement, notice of the same being attached hereto.

Macleod Dixon
Barristers & Solicitors
1500 Home Oil Tower
324 - 8th Avenue S.W.
Calgary, Alberta
T2P 2Z2

Solicitors for
Westgrowth Petroleums Ltd.

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APPENDICES:

- Appendix 1 - Arrangement Agreement
- Appendix 2 - Resolution in respect of the Stock Option Plan
- Appendix 3 - Resolution in respect of the Conveyance Agreement
- Appendix 4 - Special Resolution in respect of the Reduction
of Common Share Capital
- Appendix 5 - Special Resolution in respect of The Plan of
Arrangement

NAA7.02

WESTGROWTH PETROLEUMS LTD.
Suite 1400, 144 - 4th Avenue S.W.
Calgary, Alberta, T2P 3N4

INFORMATION CIRCULAR - PROXY STATEMENT
September 15, 1986

GENERAL

This Information Circular is furnished in connection with the solicitation of proxies by the Management of WESTGROWTH PETROLEUMS LTD. (the "Corporation") for use at the Annual General Meeting of the shareholders of the Corporation and the Special General Meeting of the shareholders of the Corporation (collectively, the "Meeting") to be held on October 6, 1986 and at any adjournment thereof, and on every poll that may take place in consequence thereof, for the purposes set forth in the Notice of Meeting.

The Annual General Meeting of the shareholders of the Corporation shall be held first and shall deal with all the matters set forth in this Information Circular under the Headings "Ordinary Business", "Financial Statements" and "Reduction of Common Share Capital". Immediately following the termination of the Annual General Meeting the Special General Meeting of the shareholders of the Corporation shall be held to discuss, and if thought fit, to pass a resolution relating to the matters set forth under the Heading, "The Plan of Arrangement". Only one Special General Meeting will be held but the holders of the Common Shares and Preferred Shares shall be polled separately in respect of any resolution relating to the aforementioned Plan of Arrangement. Reference is made to the Plan of Arrangement described herein which includes a major restructuring of the share capital of the Corporation to be voted upon at the Meeting.

PROXIES AND PROXY SOLICITATION

THIS SOLICITATION IS MADE ON BEHALF OF THE MANAGEMENT OF THE CORPORATION. The costs incurred in the preparation and mailing of the Form of Proxy, Notice of Meeting and this Information Circular will be borne by the Corporation. In addition to the use of mails, proxies may be solicited by personal interviews, telephone or telegraph by directors, officers and employees of the Corporation, who will not be remunerated therefor.

Appointment and Revocation of Proxies

Instruments of Proxy must be addressed to the Secretary of the Corporation and reach National Trust Company, 1008, 324 - 8th Avenue S.W., Calgary, Alberta T2P 3B2, not less than 48 hours before the time for holding the Meeting. The instrument appointing a proxy shall be in writing and shall be executed by the shareholder or his attorney authorized in writing or, if the shareholder is a body corporate, under its corporate seal or by an officer or attorney thereof duly authorized.

A FORM OF PROXY IS ENCLOSED HEREWITH. THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY ARE DIRECTORS OF THE CORPORATION. A SHAREHOLDER SUBMITTING THE PROXY HAS THE RIGHT TO APPOINT A PERSON (WHO NEED NOT BE A SHAREHOLDER OF THE CORPORATION) TO REPRESENT THE SHAREHOLDER AT THE MEETING, OTHER THAN THE PERSON OR PERSONS DESIGNATED IN THE FORM OF PROXY FURNISHED BY THE CORPORATION. TO EXERCISE THIS RIGHT, THE SHAREHOLDER SHOULD INSERT THE NAME OF THE DESIRED REPRESENTATIVE IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY AND STRIKE OUT THE OTHER NAMES, OR BY THE SHAREHOLDER EXECUTING ANOTHER INSTRUMENT APPOINTING A PROXY WHICH MUST BE SIMILAR IN FORM TO THE ENCLOSED FORM OF PROXY.

A shareholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Head Office of the Corporation at any time up to and including the last business day before the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits, the proxy is revoked.

Voting of Proxies

The shares represented by proxy in favour of Management nominees will be voted on any poll at the Meeting and where the shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made.

IN THE ABSENCE OF SUCH SPECIFICATION SUCH SHARES WILL BE VOTED IN FAVOUR OF THE ELECTION OF DIRECTORS, THE APPOINTMENT OF AUDITORS, THE APPROVAL OF THE SHARE OPTION PLAN, THE SPECIAL RESOLUTION IN RESPECT OF THE REDUCTION OF SHARE CAPITAL, AND THE SPECIAL RESOLUTION IN RESPECT OF THE PLAN OF ARRANGEMENT ALL AS MORE COMPLETELY SET FORTH ELSEWHERE IN THIS INFORMATION CIRCULAR. THE PERSONS APPOINTED UNDER THE FORM OF PROXY FURNISHED BY THE CORPORATION ARE CONFERRED WITH DISCRETIONARY AUTHORITY WITH RESPECT TO AMENDMENTS OR VARIATIONS OF THOSE MATTERS SPECIFIED IN THE PROXY AND NOTICE OF MEETING AND WITH RESPECT TO ANY OTHER MATTERS WHICH MAY PROPERLY BE BROUGHT BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF. AT THE TIME OF PRINTING THIS INFORMATION CIRCULAR, THE MANAGEMENT OF THE CORPORATION KNOWS OF NO SUCH AMENDMENT, VARIATION, OR OTHER MATTER.

Voting of Shares

On September 12, 1986, 13,933,075 common shares without par value (the "Common Shares") 1,550,000 12% Cumulative Redeemable Convertible Voting First Preferred Shares, Series A (the "Series A Shares") and 1,973,156 12% Cumulative Redeemable Convertible Voting First Preferred Shares, Series B (the "Series B Shares") (the Series A Shares and Series B Shares collectively referred to as the "Preferred Shares") of the

Corporation were issued and outstanding, each such share carrying the right to one vote at the Meeting. September 12, 1986 has been determined as the record date for the Meeting (the "Record Date") and those parties who have been entered in the securities register of the Corporation as shareholders of the Corporation as at that date are entitled to receive notice of and to vote at the Meeting. No shareholder shall be entitled to vote at the Meeting in respect of any share he has acquired by transfer unless (i) such transfer has been duly registered on or prior to the Record Date, or (ii) the transferee, at least ten days prior to the Meeting, produces properly endorsed share certificates to the secretary or transfer agent of the Corporation or otherwise establishes his ownership of the shares in a manner satisfactory to the Corporation.

According to the Corporation's Bylaws, a quorum for the transaction of business at any meeting of shareholders shall be two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxyholder or representative for a shareholder so entitled, and holding or representing not less than five percent of the total number of issued Common Shares and Preferred Shares of the Corporation. If a quorum is present at the opening of any meeting of shareholders, the shareholders present or represented may proceed with the business of the meeting notwithstanding that a quorum is not present throughout the meeting. If a quorum is not present at the opening of the meeting of shareholders, the shareholders present or represented may adjourn the meeting to a fixed time and place but may not transact any other business.

Principal Holder of Securities

To the best knowledge of the directors and management of the Corporation, no person or company owns beneficially, directly or indirectly, more than 10% of the issued and outstanding shares of the Corporation except John M. S. Lecky (a director and senior officer of the Corporation) through his controlling interest in The Resource Service Group Ltd. ("RSG"). As of the Record Date, RSG owned 4,336,532 Common Shares, or 31.1% of the shares outstanding in that class, 1,200,000 Series A Shares representing 77.4% of the outstanding Series A Shares and 18,000 Series B Shares representing .9% of the outstanding Series B Shares. Collectively 1,218,000 Preferred Shares representing 34.6% of the total outstanding Preferred Shares were then held by RSG. The Common Shares, the Series A Shares and the Series B Shares carry the right to one vote each on any poll at the Meeting.

Other than as noted above, in aggregate the number of Common Shares, Series A Shares and Series B Shares owned directly or indirectly by all present directors and senior officers of the Corporation as a group as the Record Date is as follows:

<u>Designation</u>	<u>Shares Owned</u>	<u>Percentage of Outstanding Shares</u>
Common Shares	25,151	0.2%
Series B Shares	12,997	0.4%

ORDINARY BUSINESS

Election of Directors

At the Meeting, the shareholders will be asked to elect five directors to succeed the present directors, whose terms of office expire on the day of the Meeting, to serve until the next Annual General Meeting, or until their respective successors have been elected or appointed. In addition, two further nominees, Mr. Howard and Mr. Mayhew have been proposed for election, contingent upon the completion of the proposed Plan of Arrangement (the "Plan") pursuant to an Arrangement Agreement (the "Arrangement Agreement") dated June 11, 1986 between the Corporation and Helicopter Rentals Limited ("HR"), both of which are described in detail elsewhere in this Information Circular under the Heading, "Plan of Arrangement".

Unless otherwise directed, it is the intention of Management to vote proxies in the accompanying Form of Proxy in favour of the election as directors of the seven nominees hereinafter set forth. Except as hereinafter qualified, the Management does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the proxies will not be voted in that regard.

John M.S. Lecky
J. Keith Farries
Harold M. Wright
Stephen M. Krasnow
Dr. Phillip M. Sigmund
John Anthony Howard
Charles Hadley David Mayhew

As explained elsewhere in this Information Circular under the Heading "Increase in Board of Directors," the Plan includes an increase in the maximum number of the board of directors from six members to nine. Accordingly, the proposed election of Messrs. Howard and Mayhew is conditional upon the Arrangement Agreement and the Plan becoming effective (the steps required to effect the Plan and the conditions thereto are set forth under the Heading "Required Vote and Court Approval"). In the event that the Plan is not implemented, the election of Messrs. Howard and Mayhew shall not be effective. According to the Articles of Continuance of the Corporation, the directors may, between annual meetings, appoint one or more additional directors of the Corporation to serve until the next Annual General Meeting and will, therefore, be able to fill any vacancy created as a consequence of the Arrangement Agreement and the Plan not being implemented. At this time, the board of directors has not chosen a candidate to fill such vacancy if it does occur.

All the persons named above are presently directors of the Corporation and have served continuously as such since the date they first became directors as set forth below with the exception of Mr. Howard and Mr. Mayhew.

The names of all of the persons nominated for election as directors, all other positions and offices with the Corporation held by them, their principal occupations, the dates on which they became directors of the Corporation and the number of voting shares of the Corporation beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them, as of the Record Date are as follows:

<u>Name and Residence of Nominee</u>	<u>Positions Presently Held With the Company</u>	<u>Present Principal Occupation</u>	<u>Number of Voting Shares Held</u>
John M.S. Lecky Calgary, Alberta	Chairman, President and Director since June 1979	Chairman and President, The Resource Service Group Ltd.	Nil (1)
J. Keith Farries (2) Calgary, Alberta	Director since June 1982	President, Farries Engineering (1977) Ltd.	Nil
Harold M. Wright (2) Vancouver, British Columbia	Director since February 1979	Chairman, Wright Engineers Limited	23,980 Common Shares 2,997 Series B Shares
Stephen M. Krasnow (2) Calgary, Alberta	Director since June 1982	Vice-President and Treasurer, The Resource Service Group Ltd.	1,171 Common Shares 10,000 Series B Shares
Dr. Phillip M. Sigmund Calgary, Alberta	Director since May 1985	Associate Professor, Dept. of Chemical and Petroleum Engineering, University of Calgary	Nil (3)
John Anthony Howard Crawley Down, Sussex, England	Nil	Financial Director, Bristow Helicopters Limited	40,000 Common Shares
Charles Hadley David Mayhew Southampton, Bermuda	Nil	Managing Director, Helicopter Rentals Limited	Nil

(1) Mr. Lecky has a controlling interest in RSG, the shareholdings of which are listed under the Heading "Principal Holder of Securities".

- (2) Denotes members of the Audit Committee.
- (3) Dr. Phillip M. Sigmund has been granted options to acquire 30,000 Common Shares at \$0.55 per share subject to the approval of the Corporation's shareholders (see Heading "Approval of Stock Options").

All persons named as nominees have practiced their present principal occupation for the past five years.

The information as to shares beneficially owned, directly or indirectly, is based upon information furnished to the Corporation by the respective nominees.

Appointment of Auditors

Unless otherwise directed, it is Management's intention to vote the proxies in favour of the appointment of the firm of Touche Ross & Co., Chartered Accountants, of Calgary, Alberta, as auditors of the Corporation, to hold office until the next Annual General Meeting of the shareholders. Touche Ross & Co. were first appointed auditors of the Corporation at the Extraordinary and Annual General Meeting of the shareholders held on May 11, 1984.

Approval of Stock Options

At a meeting on May 11, 1985, the board of directors granted stock options to several individuals; Dr. Phillip M. Sigmund, a director of the Corporation was granted the right to purchase 30,000 Common Shares at an exercise price of \$0.55 per share. Dr. Sigmund is not an employee of the Corporation, but does provide professional services relating to the Corporation's enhanced oil recovery projects. The approval of the shareholders of the Corporation to the granting of this stock option plan is required pursuant to the listing requirements of The Toronto Stock Exchange. Unless otherwise directed, it is Management's intention to vote the proxies in favour of Resolution No. 1 approving these stock options. The text of Resolution No. 1 is set forth in Appendix 2 hereof.

Approval of Conveyance Agreement

The shareholders are being asked to consider, and if thought fit, adopt Resolution No. 2 approving a Conveyance Agreement dated June 11, 1986 between the Corporation and Heli-Union B.E.A.S. Limited ("H-U"). The Conveyance Agreement concerns the issue of sixteen (16,000,000) million Common Shares to H-U in exchange for the conveyance to the Corporation of certain assets held by H-U under a Conveyance and Joint Venture Agreement made the 24th day of July, 1985 between H-U and the Corporation. Details of the conveyance of these "Joint Venture Assets" are found under the Heading, "Conveyance of Joint Venture Assets" elsewhere in this Information Circular. Unless otherwise directed, it is Management's intention to vote the proxies in favour of Resolution No. 2 approving the Conveyance Agreement. The text of Resolution No. 2 is set forth in Appendix 3 hereof.

AUDITORS' REPORT

The Board of Directors
Westgrowth Petroleums Ltd.

We have examined the consolidated balance sheets of Westgrowth Petroleums Ltd. as at December 31, 1985 and 1984 and the consolidated statements of earnings, deficit and changes in cash resources for the two years ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its cash resources for the two years ended December 31, 1985 in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas properties as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

The comparative financial statements for years prior to 1984 have been reported upon by other auditors, and accordingly our opinion does not extend thereto.

Calgary, Alberta
February 17, 1986
September 11, 1986 as to Notes 5(b) and 13

Touche Ross & Co.
Chartered Accountants

WESTGROWTH PETROLEUMS LTD.

Consolidated Balance Sheets

	June 30, <u>1986</u> (Unaudited)	<u>December 31,</u> <u>1985</u> <u>1984</u> (Restated)	
<u>ASSETS</u>			
Current Assets:			
Cash and short-term deposit	\$ 110,000	--	1,711,000
Accounts receivable	1,467,000	1,824,000	1,546,000
Marketable securities	--	96,000	--
Inventory	78,000	65,000	114,000
Prepaid expenses and other	<u>38,000</u>	<u>19,000</u>	<u>72,000</u>
	1,693,000	2,004,000	3,443,000
Property, Plant and Equipment (Notes 2, 4 and 5)	29,905,000	28,506,000	26,242,000
Other	<u>31,000</u>	<u>48,000</u>	<u>--</u>
	<u>\$31,629,000</u>	<u>30,558,000</u>	<u>29,685,000</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	\$ 2,732,000	2,994,000	2,006,000
Long-term debt due within one year	<u>500,000</u>	<u>--</u>	<u>2,043,000</u>
	3,332,000	2,994,000	4,049,000
Deferred Revenue	658,000	706,000	647,000
Long-Term Debt (Note 5)	3,950,000	3,100,000	3,063,000
Deferred Income Taxes	1,951,000	1,851,000	826,000
<u>SHAREHOLDERS' EQUITY</u>			
Share Capital (Notes 3 and 8)	33,646,000	33,646,000	32,011,000
Deficit (Note 2)	<u>(11,908,000)</u>	<u>(11,739,000)</u>	<u>(10,911,000)</u>
	21,738,000	21,907,000	21,100,000
Commitments and Contingencies (Notes 11 and 12)			
	<u>\$31,629,000</u>	<u>30,558,000</u>	<u>29,685,000</u>

WESTGROWTH PETROLEUMS LTD.

Consolidated Statements of Deficit

	Year Ended December 31,						
	Six Months Ended June 30,	1985 (Restated) (Unaudited)	1985	1984 (Restated)	1983 (Restated)	1982 (Restated)	1981 (Restated)
Deficit, beginning of year			(10,911,000)	(10,458,000)	(7,485,000)	(4,496,000)	(479,000)
Net earnings (loss) (Note 2)	183,000	1,027,000	1,286,000	1,659,000	(1,747,000)	(2,255,000)	(3,942,000)
Dividends on preferred shares	(352,000)	(1,058,000)	(2,114,000)	(2,112,000)	(1,226,000)	(560,000)	(75,000)
Expenses relating to issue of preferred shares net of deferred income taxes	--	--	--	--	--	(174,000)	--
Deficit, end of year	\$(11,908,000)	(10,942,000)	(11,739,000)	(10,911,000)	(10,458,000)	(7,485,000)	(4,496,000)

WESTGROWTH PETROLEUMS LTD.

Consolidated Statements of Changes in Cash Resources

	Year Ended December 31,			
	1985	1984	1983	1982
	1981			
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WESTGROWTH PETROLEUMS LTD.

Notes to Consolidated Financial Statements
(Information as at June 30, 1986 and subsequent thereto,
and for the six months ended June 30, 1986 and 1985 is unaudited)

1. Summary of Significant Accounting Policies:

a) Principles of Consolidation:

The consolidated financial statements include the accounts of Westgrowth Petroleum Ltd. (the Corporation) and its wholly owned subsidiaries, Westgrowth Petroleum, Inc., British Canadian Resources Ltd. and St. John's Petroleum Ltd.

b) Full Cost Method of Accounting:

The Corporation follows the full cost method of accounting for exploration and development expenditures, whereby all costs relating to the exploration for and the development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Such costs include those related to lease acquisition, geological and geophysical activities, costs of drilling productive and non-productive wells and overhead charges related to exploration and development activities. The Corporation capitalizes petroleum and natural gas properties at cost to the extent that they do not exceed the estimated discounted net cash flow from total proven reserves ("ceiling test").

Costs related to the acquisition of undeveloped properties are excluded from capitalized costs to be depleted until it is determined whether proven reserves are attributable to the properties or impairment in value has occurred.

Depletion of petroleum and natural gas properties is calculated on the unit of production method based upon estimated proven reserves as determined by independent engineers.

Depreciation of production equipment, related facilities and other equipment is calculated on a declining balance basis at rates of 5% to 30%.

Gains or losses on significant property, plant and equipment sales are recognized in the consolidated statement of earnings.

c) Joint Venture Operations:

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

d) Foreign Currency Translation:

The foreign currency accounts of the Corporation and its United States subsidiary are translated to Canadian dollars using the temporal method.

e) Deferred Revenue:

The deferred gas production revenue represents payments received under take-or-pay gas contracts. These amounts are included in revenue when the gas to which the payments relate is delivered or reduced in the case of a required repayment.

f) Inventory:

The Corporation's inventory is valued at lower of the cost and net realizable value.

2. Change in Accounting Policy

In 1985, the Corporation changed, on a retroactive basis, its method of accounting for oil and gas properties to adopt a country-by-country basis for recording exploration and development costs. In applying the ceiling test on this basis, management has determined that the recorded costs in the United States should be written off and a retroactive adjustment of \$6,048,000 has been made to the deficit as at January 1, 1984. Net earnings for 1984 has been increased by \$85,000 to reflect the related effect on depreciation, depletion and deferred income taxes.

3. Acquisition of St. John's Petroleum Ltd.:

Effective June 24, 1985, the Corporation acquired St. John's Petroleum Ltd. for a total consideration of \$1,635,000. A shareholder of St. John's Petroleum Ltd. is also a director and officer of the Corporation. The acquisition has been accounted for by the purchase method. The results of operations have been included in the accounts of the Corporation from date of acquisition.

The excess of the purchase price over underlying book value of net assets acquired has been attributed to petroleum and natural gas properties based on independent engineers' reserve report.

Details of the transaction are as follows:

Book value of net assets acquired	\$ 909,000
Excess of the purchase cost over book value of net assets acquired	<u>726,000</u>
	<u>\$ 1,635,000</u>

3. Acquisition of St. John's Petroleum Ltd.: (continued)

The net assets acquired at attributed values consist of:

Working Capital	\$ 865,000
Petroleum and natural gas properties	1,067,000
Long-term liabilities	<u>(297,000)</u>
	<u>\$ 1,635,000</u>

Consideration given:

2,302,889 common shares of Westgrowth Petroleums Ltd.	<u>\$ 1,635,000</u>
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4. Property, Plant and Equipment:

	<u>June 30,</u> <u>1986</u>	<u>December 31,</u> <u>1985</u>	<u>December 31,</u> <u>1984</u>
Cost:			
Petroleum and natural gas properties:			
Developed	\$ 26,596,000	24,416,000	21,264,000
Undeveloped	4,413,000	4,413,000	4,232,000
Plant and equipment	<u>7,317,000</u>	<u>7,119,000</u>	<u>6,692,000</u>
	<u>38,326,000</u>	<u>35,948,000</u>	<u>32,188,000</u>
Accumulated depletion and depreciation:			
Petroleum and natural gas properties	6,311,000	5,482,000	4,343,000
Plant and equipment	<u>2,110,000</u>	<u>1,960,000</u>	<u>1,603,000</u>
	<u>8,421,000</u>	<u>7,442,000</u>	<u>5,946,000</u>
Net book value	<u>\$ 29,905,000</u>	<u>28,506,000</u>	<u>26,242,000</u>
Exploration and development overhead capitalized during the year	<u>\$ 204,000</u>	<u>476,000</u>	<u>318,000</u>

5(a) Long-Term Debt:

	June 30, 1986	December 31,	
	<u>1986</u>	<u>1985</u>	<u>1984</u>
Bank loan	\$ 4,550,000	3,100,000	3,000,000
Debentures	--	--	2,000,000
Leasehold improvement loan	<u>--</u>	<u>--</u>	<u>106,000</u>
	4,550,000	3,100,000	5,106,000
Less amount due within one year	<u>600,000</u>	<u>--</u>	<u>2,043,000</u>
	<u>\$ 3,950,000</u>	<u>3,100,000</u>	<u>3,063,000</u>
	=====	=====	=====

The Corporation has a line of credit with the Corporation's Canadian banker, providing for loans of approximately \$8,000,000 of which \$3,100,000 had been drawn down at December 31, 1985. Borrowings under this line of credit bear interest at 1/4% above the bank's prime lending rate.

The line of credit is evidenced by a demand note and is secured by certain of the Corporation's Canadian and U.S. petroleum and natural gas properties and by a general assignment of accounts receivable. No portion of the bank loan has been classified as being payable within one year as this loan is repayable out of future production proceeds and accordingly is not expected to require the use of working capital.

The 10% subordinated convertible debentures and leasehold improvement loan were repaid during the year.

(b) In April, 1986 the Corporation concluded a restructuring of its line of credit with the Corporation's banker whereby its line of credit was reduced from \$8.1 million to \$5.5 million with additional security provided by the Corporation principally in the form of a first floating charge debenture. The covenants in the loan agreement impose certain restrictions on the payment of preferred share dividends. Of the total line of credit, \$3.5 million is non-revolving with repayments which commenced in June, 1986.

6. Deferred Income Taxes:

The provision for deferred income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to the earnings before income taxes. This difference results from the following items:

	Six Months Ended June 30,	Year Ended December 31,	
	1986	1985	1984
Computed expected tax	\$ 134,000	1,049,000	1,168,000
Increase (decrease) in taxes resulting from:			
Non-deductible expenses	152,000	556,000	333,000
Government tax allowances and credits	<u>(186,000)</u>	<u>(661,000)</u>	<u>(540,000)</u>
Deferred income tax provision	<u>\$ 100,000</u>	<u>944,000</u>	<u>961,000</u>
		Year Ended December 31,	
		1983	1982
Computed expected tax		\$ 108,000	(107,000)
Increase (decrease) in taxes resulting from:			
Non-deductible expenses		215,000	797,000
Government tax allowances and credits		<u>(264,000)</u>	<u>(630,000)</u>
Deferred income tax provision		<u>\$ 59,000</u>	<u>60,000</u>

7. Extraordinary Items:

	Year Ended December 31,	
	1984	1981
Gain on disposal of investments	\$ --	437,000
Less income taxes	<u>--</u>	<u>106,000</u>
	--	331,000
Tax benefit of prior years' losses	<u>135,000</u>	<u>--</u>
	<u>\$135,000</u>	<u>331,000</u>

8. Share Capital:

a) Authorized:

The authorized capital of the Corporation consists of:

(i) Preferred:

- 6,000,000 cumulative, redeemable, convertible first preferred shares with a par value of \$5.00 each designated as follows:
- 2,000,000 12% series A;
- 2,675,004 12% series B.

First preferred shares, series A and B have voting rights of one vote per share. The shares are convertible into common shares at a price of \$1.25 per common share to December 31, 1986. The shares are redeemable at the option of the Corporation in whole or in part under certain conditions. The redemption price is \$5.50 per share if the shares are redeemed in the 12 months ending December 31, 1987, and thereafter declining by \$0.10 per share annually to \$5.00 per share.

(ii) Common:

- 50,000,000 shares of no par value.

b) Issued:

	<u>June 30, 1986 and December 31, 1985</u>		<u>December 31, 1984</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
(i) First preferred shares:				
Series A	1,550,000	\$ 7,750,000	1,550,000	\$ 7,750,000
Series B	1,973,156	9,866,000	1,973,156	9,866,000
(ii) Common shares	13,933,075	16,030,000	11,630,186	14,395,000
		<u>\$ 33,646,000</u>		<u>\$ 32,011,000</u>

8. Share Capital: (continued)

Common shares reserved for issue at:

	June 30, 1986	December 31, 1985 1984	
On the conversion of debentures	--	--	333,333
On the conversion of series A first preferred shares	6,200,000	6,200,000	6,200,000
On the conversion of series B first preferred shares	7,892,624	7,892,624	7,892,624
On the exercise of share purchase warrants:			
- issued pursuant to the acquisition of British Canadian Resources Ltd. exercisable at \$3.00 per share expiring December 31, 1985	--	--	660,000
On the exercise of options:			
granted officers and employees one third of which are exercisable in any one year:			
- at \$0.55/share expiring in 1987	327,000	327,000	333,000
- at \$0.55/share expiring in 1988	70,000	70,000	--
- at \$0.60/share expiring in 1989	207,000	--	--
Options not granted	96,000	--	--
	<u>14,792,624</u>	<u>14,489,624</u>	<u>15,418,957</u>

9. Loss Per Common Share:

The loss per common share is calculated after deduction of dividends on preferred shares by dividing the weighted daily average number of common shares outstanding during the year into the loss attributable to the common shareholders.

	Six Months Ended June 30,		Year Ended December 31,				
	<u>1986</u>	<u>1985</u> (Restated)	<u>1985</u>	<u>1984</u>	<u>1983</u> (Restated)	<u>1982</u>	<u>1981</u>
Loss per share before extraordinary item	\$.06	.00	.07	.05	.34	.37	.94
Net loss per share	\$.06	.00	.07	.04	.34	.37	.86

The conversion of preferred shares and the exercise of warrants and options would be anti-dilutive.

As of June 30, 1986 the Corporation was in arrears in payment of preferred share dividends of \$0.20 per share or \$705,000; this amount was included in the calculation of the net loss per share for the six months ended June 30, 1986.

10. Related Party Transactions:

Details of related party transactions are as follows:

- a) Included in general and administrative expense are amounts which represent management fees payable to The Resource Service Group Ltd., a related Corporation, for the following periods:

<u>June 30,</u>		<u>December 31,</u>	
<u>1986</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>
\$37,500	50,000	100,000	100,000
=====	=====	=====	=====

- b) In May, 1982, a major shareholder of the Corporation (The Resource Service Group Ltd.) purchased 1,200,000 series A first preferred shares for an aggregate amount of \$6,000,000 representing 77.4% of the outstanding series A first preferred shares. The Resource Service Group Ltd. held \$1,200,000 of the issued debentures and was paid \$70,000 (1984 - \$120,000) of interest related to this debenture in 1985.
- c) The Corporation had unsecured promissory notes receivable amounting to approximately \$57,000 as at December 31, 1983 and \$117,000 as at December 31, 1982 (1981 - \$70,000). The promissory notes, which bore interest at rates of 10% to 12% per annum, were due in 1984 and represented funds advanced to officers and a director.
- d) During 1982 the Corporation paid commissions in the amount of \$40,000 (1981 - \$60,000) for professional services to a Corporation, whose chairman is a former director of the Corporation.
- e) During 1981 and 1982 the Corporation's United States subsidiary participated on a joint venture basis with a subsidiary of The Resource Service Group Ltd. in oil and gas development programs. The terms of the joint venture agreement were identical to transactions with non-related parties.
- f) During 1981 a Corporation controlled by a director of the Corporation:
- 1) purchased from third parties 34% of the outstanding shares of St. John's Petroleums Ltd. and on the same terms
 - 2) purchased from the Corporation its 13% investment in St. John's Petroleums Ltd.

11. Commitments:

In 1984 the Corporation disposed of its carbon dioxide processing facility. Subsequent to this sale, the Corporation entered into a processing agreement with the owners of the facility whereby the Corporation has agreed to pay a minimum processing fee in return for the utilization of the facility to process its waste gas. The Corporation has provided the owners of the facility with security for these obligations by means of collateral debentures aggregating \$2,000,000 and an assignment of its related processing revenue.

The Corporation has a ten year lease agreement for office space expiring December 31, 1991. The Corporation's minimum share of the aggregate payments is \$2,568,000 comprised of gross payments of \$2,750,000 less amounts to be paid by sublessors of \$182,000. The minimum payments required in the next five years are as follows:

	<u>December 31, 1985</u>
1986	\$ 193,000
1987	466,000
1988	477,000
1989	477,000
1990	477,000

TOTAL	\$ 2,090,000 =====

12. Contingencies:

The Corporation is a defendent in a legal action instituted in the Court of Queen's Bench of Alberta by a Canadian chartered bank as assignee for a certain drilling Corporation. The amount claimed is approximately \$1,300,000 (U.S. \$913,000) plus interest and costs and the Corporation is vigorously contesting the claim. The Corporation's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action.

In 1982 the Corporation sold a 20% working interest in certain acreage and wells on the Corporation's Retlaw property for a consideration of \$2,750,000. The sale agreement also provided for the payment of \$1,000,000 contingent upon achievement of certain production performance standards. If and when received, the contingent amount will be credited to the consolidated statement of earnings.

13. Subsequent Event:

- a) On June 11, 1986, the Corporation entered into an agreement with Helicopter Rentals Limited providing for its participation in a proposed reorganization of the Corporation's share capital.

The proposed reorganization provides for the outstanding preferred shares of the Corporation to be exchanged with the Corporation for common shares of the Corporation or a combination of cash and common shares. The Corporation will also implement a rights issue wherein all shareholders of the Corporation will be granted rights to subscribe for additional common shares at a price of \$0.25 per share.

- b) The Corporation also entered into an agreement with Heli-Union B.E.A.S. Limited providing for the issuance of the Corporation's common shares in exchange for the conveyance to the Corporation of all assets held under the terms of a July, 1985 joint venture agreement between the Corporation and Heli-Union B.E.A.S. Limited.

REDUCTION OF COMMON SHARE CAPITAL

The Management of the Corporation wishes to establish a new basis of accounting for the equity held in the Corporation by the shareholders. Reference should be made to the Pro Forma Consolidated Balance Sheet found on page 33 hereof for an illustration of the effect of this proposed reduction of common share capital. At December 31, 1985, the deficit of the Corporation amounted to \$11,739,000 reflecting in large part a substantial writedown of the oil and gas properties in the Corporation's United States subsidiary. The recorded book values for these properties are not considered realizable under current operating conditions and therefore, a permanent reduction in the Common Share Capital Account is advisable to reflect the foregoing. Furthermore, in conjunction with the implementation of the Plan, the Management feels it advisable to restate the Common Share Capital Account net of the prior existing deficit so that the legacy of said deficit does not detract from the Corporation's performance after the reorganization.

It is proposed that, whether or not the Plan is approved, the Common Share Capital Account will be reduced by an amount equal to the amount of the deficit as shown on the balance sheet of the most recent financial statements of the Corporation thereby eliminating the deficit.

There is no practical expected impact on the worth of the shareholders' investment in the Corporation that should arise from reducing the Common Share Capital Account in the manner described. The principal result of this change will be to more realistically reflect the amount of permanent capital in the Corporation and, if the Plan is adopted, to account for ongoing shareholders' equity without the burden of a prior deficit. Shareholders should make reference to the information found under the Heading "Income Tax Consequences".

Shareholders will be asked to pass a Special Resolution ("Special Resolution No. 1") to this effect, which will not be effective unless it is adopted by 66 2/3% of those shareholders present at the Meeting, in person or by proxy. The text of Special Resolution No. 1 is set forth as Appendix 4 hereof.

The reduction of the Common Share Capital Account of the Corporation also forms part of the proposed Plan which the shareholders of the Corporation are considering as part of Special Resolution No. 2 (attached hereto as Appendix 4 hereof). The shareholders are being asked to consider and, if so desired, pass Special Resolution No. 1 in respect of the Reduction of Common Share Capital in order that such reduction may occur irrespective of the approval or rejection of the proposed Plan as hereinafter described. In the event that the Plan becomes effective, contributed surplus arising from the implementation of the Plan due to the fact that the holders of Preferred Shares will, upon conversion of their shares, receive less capital than that which was contributed at the time of their issuance, will be applied to the reduction of the deficit prior to any reduction of the Common Share Capital Account (see the Headings "Share Capital" and "Conversion of Preferred Shares").

THE PLAN OF ARRANGEMENT

The Corporation has entered into an Arrangement Agreement dated June 11, 1986 (the "Arrangement Agreement") with Helicopter Rentals Limited ("HR"), a copy of which is attached as Appendix 1 hereto. HR is a company controlled by British and Commonwealth Shipping Company PLC of London, England. Pursuant to the Arrangement Agreement the Corporation has agreed, subject to the satisfaction or waiver of certain conditions, including the approval of the shareholders of the Corporation, to a plan of arrangement under Section 186 of the Business Corporations Act (Alberta) (the "Act") between the Corporation and its shareholders (the "Plan"). The Arrangement Agreement and the Plan have been approved by the board of directors of the Corporation. The shareholders will be asked to pass a Special Resolution ("Special Resolution No. 2") in respect of the Plan and the Arrangement Agreement. The text of Special Resolution No. 2 is set forth as Appendix 5 hereof. The following is a general description of the terms and conditions of the Plan and the Arrangement Agreement and of the procedural steps which must be taken in order for them to become effective.

Summary

The following summary is qualified in its entirety by reference to the full text of the Plan and the Arrangement Agreement. The Plan is an attempt to provide the Corporation with new equity in order to eliminate existing financial obligations to the Corporation's bank and to retire the outstanding Preferred Shares. The implementation of the Plan and the Arrangement Agreement may result in a transfer of voting control of the Corporation to HR, while providing remaining shareholders with an investment in a financially stronger company. The result will be the injection of at least Ten Million (\$10,000,000) Dollars in new equity into the Corporation.

The Plan and the Arrangement Agreement contain the following principal elements:

- (1) a share rights offering to the existing shareholders of Common and Preferred Shares entitling them to purchase two and eight Common Shares, respectively, for each share held at a price of Twenty Five (\$0.25) Cents per share, which, if fully subscribed, would raise approximately Fourteen Million (\$14,000,000) Dollars through the issuance of approximately fifty-six million Common Shares;
- (2) a commitment by HR to subscribe for all those Common Shares, to a maximum of forty million Common Shares or Ten Million (\$10,000,000) Dollars, represented by those share rights offered to the shareholders of the Corporation and not exercised;
- (3) the conversion of the existing Preferred Shares into, at the election of each holder of Preferred Shares, Common Shares or cash and a lesser number of Common Shares;

- (4) the issue by the Corporation of a debenture to HR as consideration for the availability of a maximum of Three Million (\$3,000,000) Dollars of additional funds to the Corporation, the debenture being convertible into a maximum of the equivalent of twelve million Common Shares; and
- (5) the election of two nominees of HR as directors of the Corporation and the amendment of certain by-laws and Articles of Continuance of the Corporation in respect of directors' voting authority in certain areas.

Further, while not part of the Plan, if the Plan is implemented, the Corporation will complete a transaction whereunder it would issue sixteen million Common Shares as consideration for the acquisition of all assets held or earned through a previous joint venture agreement between the Corporation and Heli-Union B.E.A.S. Limited, a company affiliated with HR.

The implementation of the Plan requires certain regulatory approvals, the approval of the holders of Common and Preferred shares by separate resolutions, the approval of the Court of Queen's Bench of Alberta and the satisfaction or waiver of certain other conditions. If the foregoing are completed the Plan will become effective on the date the Director of Corporations of Alberta issues a Certificate of Amendment in respect of the Corporation (the "Effective Date").

Share Rights Offering

Pursuant to the provisions of the Arrangement Agreement the Corporation has authorized a share rights offering (the "Share Rights Offering") to the registered holders of Common Shares and Preferred Shares. The Share Rights Offering is not part of the Plan, but is conditional upon the Plan being approved by the shareholders of the Corporation and the Court. Forthwith upon such approvals being obtained a record date (the "Share Rights Offering Record Date") shall be set for the purposes of determining the shareholders of the Corporation entitled to subscribe for shares. An offering circular describing the Share Rights Offering and the manner in which such rights may be exercised shall immediately thereafter be sent to each shareholder of the Corporation as of the Share Rights Offering Record Date. It is expected that the final date for the exercise of these Share Rights (the "Expiry Date") will be approximately three weeks after the mailing date of the Share Rights Offering circular.

Each registered holder of Common Shares as at the Share Rights Offering Record Date will have the right to purchase an additional two Common Shares for each Common Share held at a price of Twenty-Five (\$0.25) Cents for each Common Share so purchased. Each registered holder of Preferred Shares as at the Record date will have the right to purchase eight Common Shares for each Preferred Share held at a price of Twenty-Five (\$0.25) Cents for each Common Share so purchased.

Conditional Subscription of Portion of Share Rights Offering

HR has conditionally subscribed for all those Common Shares, to a maximum of forty million, which are not purchased pursuant to the exercise of the Common Share Rights on or before the Expiry Date. Upon payment in cash for the shares conditionally subscribed for, HR shall be entitled to receive such Common Shares. Prior to the mailing of this Information Circular, HR has provided to the Corporation confirmation by an established bank as to the availability of Ten (\$10,000,000) Million Dollars to fulfill its obligations under the Arrangement Agreement and, in particular, its conditional subscription for Common Shares as set out above.

Alberta Stock Savings Plan

The Corporation has received a provisional Certificate of Eligibility under the proposed Alberta Stock Savings Plan Act in order to qualify the Common Shares offered pursuant to the Common Share Rights for inclusion in a stock savings plan (the provisional Certificate of Eligibility does not relate to the Common Shares issued in respect of the Conversion of Preferred Shares). If the proposed Alberta Stock Savings Plan Act is enacted as law and the Corporation is issued a final Certificate of Eligibility, an eligible investor will be entitled to a tax credit against Alberta income tax otherwise payable of 15% of the purchase price of \$0.25 per Common Share to a maximum annual credit of the lesser of Three Thousand (\$3,000) Dollars and Alberta income tax otherwise payable. Limited provisions are made for the carry forward of unused tax credits. The tax credit is available only to individuals, other than trusts, and not to corporations or other entities. See the Heading, "Alberta Tax Considerations".

In order to qualify the Common Shares issued pursuant to the exercise of Common Share Rights as eligible shares, the Corporation has obtained from the Alberta Stock Exchange a conditional approval for the listing of the Common Shares of the Corporation.

Conversion of Preferred Shares

Under the terms of the Plan, the outstanding Preferred Shares will be converted (the "Conversion of Preferred Shares"), into cash and/or Common Shares on the basis of either:

- (a) Two (\$2.00) Dollars in cash and four Common Shares for each Preferred Share held (the "Cash plus Shares Option"); or
- (b) fourteen Common Shares for each Preferred Share held (the "All Shares Option").

Each registered holder of Preferred Shares has the choice to elect either of the aforementioned options in respect of all or any of the Preferred Shares held by such holder. An election form is enclosed with this Information Circular and sets forth the manner and time in which a shareholder may make such elections. Holders of Preferred Shares who have not made an election in respect of any or all of the

Preferred Shares held in accordance with the terms thereof by October 6, 1986, the date of the Meeting, shall be deemed to have elected the All Shares Option. The effect of this conversion will be to eliminate all the outstanding Preferred Shares on the Effective Date. The manner in which former holders of Preferred Shares may receive the new share certificates and cash to which they are entitled pursuant to an election or deemed election is set forth herein under the heading "Share Certificates". The conversion of the Preferred Shares will result in the issue of a maximum of approximately forty-nine million, three hundred thousand Common Shares in the event that all holders of Preferred Shares elect or are deemed to elect the All Shares Option.

Convertible Debenture

Pursuant to the Arrangement Agreement an unsecured debenture (the "Debenture") will be issued by the Corporation in favour of HR, Bristow Helicopters (Eastern) Limited (a company affiliated with HR), or such other entity as is designated by HR and is acceptable to the Corporation (referred to herein as "HR"). Under the terms of the Debenture, a copy of which is attached as Schedule "B" to Appendix I, HR will make available to the Corporation a line of credit to be utilized for the Corporation's general corporate purposes. This line of credit will initially be limited to One Million (\$1,000,000) Dollars, but may be increased at the option of HR within twelve months of the time at which the line of credit is first utilized by the Corporation, if so requested by the Corporation to a maximum of Three Million (\$3,000,000) Dollars. The Corporation may request the first advance in respect of the line of credit at any time within twelve months from the date that the shareholders of the Corporation approve the Plan and the Arrangement Agreement and further advances may be requested for a period ending twelve months after the first advance has been made by HR. All amounts outstanding under the Debenture will bear interest at a fixed rate of 8% per annum and must be repaid by the Corporation within five years of the date of the first advance.

HR has the right during the period commencing with its first advance to the Corporation to convert the entire principal amount outstanding under the Debenture, but not the outstanding interest, into common shares to be issued by the Corporation subsequent to the one for twenty share consolidation (see the Heading "Share Consolidation") proposed to be implemented with the Plan (the consolidated common shares herein referred to as "New Common Share(s)") on the following basis:

- (a) during the twelve months ending on the first anniversary of the date of the first advance one New Common Share for each \$5.00 in Canadian currency then outstanding under the Debenture;
- (b) during the twelve months ending on the second anniversary of the date of the first advance one New Common Share for each \$6.00 in Canadian currency then outstanding under the Debenture; and

- (c) thereafter until repayment by the Corporation, one New Common Share for each \$8.00 in Canadian currency then outstanding under the Debenture.

The right to convert the Debenture into New Common Shares is a non-recurring right which may only be exercised in respect of the entire amount of the principal then outstanding under the Debenture. The maximum number of New Common Shares which may be issued pursuant to the rights of HR under the Debenture is six hundred thousand or approximately 8% to 12% of the New Common Shares which will be outstanding upon implementation of the Plan. This is equivalent to twelve million Common Shares.

Although the issuance of the Debenture is not part of the Plan, the obligation of the Corporation to issue it is part of the Arrangement Agreement. Should the Effective Date of the Arrangement Agreement and the Plan not occur, neither the Corporation nor HR will have any obligations in respect of the Debenture.

Amendment of Articles of Continuance

Increase in Share Capital

The authorized share capital of the Corporation is described elsewhere in this Information Circular under the heading "Share Capital". In order to permit the issuance of the Common Shares necessary to implement the terms of the Share Rights Offering, Conversion of Preferred Shares, Debenture and Conveyance of Joint Venture Properties and to allow the Corporation more flexibility in the future, the Plan includes a provision whereby the Articles of Continuance of the Corporation shall be amended so that the authorized share capital of the Corporation will be an unlimited number of Common Shares and an unlimited number of Preferred Shares.

Increase in Board of Directors

The Articles of Continuance of the Corporation currently allow for a minimum of three and a maximum of six members of the board of directors. The Arrangement Agreement obligates the Corporation to alter its Articles of Continuance to provide for a minimum of three and a maximum of nine members of the board of directors, two of whom shall be nominees of HR. Under the heading "Election of Directors" found elsewhere in this Information Circular, seven nominees have been named for election to the board of directors. If Messrs. Howard and Mayhew are approved by the shareholders of the Corporation their election shall be conditional upon the Effective Date of the Arrangement Agreement and Plan occurring. In the event that the Effective Date of the Arrangement Agreement and the Plan does not occur only the election of the five other nominees shall be effective.

Majority Vote of Directors

In conjunction with the aforementioned increase in the size of

the board of directors, both the Articles of Continuance and the Bylaws of the Corporation will be amended to the effect that any resolution by the board of directors in respect of certain matters must be approved by a majority of 75% of the directors. These matters are (i) the issuance of shares, (ii) the borrowing of money or leasing of assets, (iii) capital expenditures, (iv) the creation or amendment of a corporate business plan, (v) the declaration of dividends, (vi) the sale of all or substantially all of the Corporation's assets, and (vii) any amalgamation, consolidation or merger of the Corporation with or into any other corporation. See the Plan and Arrangement Agreement attached hereto as Appendix 1 for the text of this amendment.

Name Change

Further to the Arrangement Agreement the Plan amends the name of the Corporation as stated in the Articles of Continuance to Canadian Westgrowth Ltd. This name has been conditionally approved by The Toronto Stock Exchange for listing. It is expected that the change of name will become effective at The Toronto Stock Exchange at such time as the Common Shares begin trading on such exchange on a consolidated basis. See the Heading, "Share Consolidation".

Share Consolidation

The Plan provides that subsequent to the issuance of the Common Shares pursuant to the Share Rights Offering and the Conversion of Preferred Shares, each outstanding Common Share shall be deemed to be changed into one-twentieth of one Common Share. The consolidated Common Shares are herein referred to as "New Common Shares." Share certificates issued subsequent to the Effective Date shall be denominated in New Common Shares. See the Heading, "Share Certificates".

Reduction of Common Share Capital

The Plan includes the reduction of the Common Share Capital Account by an amount equal to the amount of the deficit as shown on the most recent financial statements of the Corporation. Further information is found elsewhere under the Heading "Reduction of Share Capital" on page 22 hereof.

Required Vote and Court Approval

Pursuant to Section 186 of the Act, in order for the Plan to become effective, the following procedural steps must be completed:

1. The Plan must be approved and agreed to at the Meeting by separate resolutions of the holders of the Common Shares and the Preferred Shares in each case passed by a majority of no less than 66 2/3% of the votes cast in person or by proxy in respect of the resolution. One of the conditions imposed upon the Corporation by The Toronto Stock Exchange and the Ontario Securities Commission is that the aforementioned resolutions be passed by at least a simple majority of the votes cast by shareholders other than RSG, the principal holder of

shares in the Corporation, its associates, affiliates and other insiders. See the Heading, "Principal Holder of Securities".

2. The Plan so approved by the shareholders must be approved by Order of the Court of Queen's Bench of Alberta (the "Court"). In hearing the Corporation's application, the Court, among other things, may approve the Plan either as presented or subject to compliance with such terms and conditions as the Court thinks fit, having regard to the rights and interests of the shareholders affected. Subject to shareholder approval of the Plan at the Meeting, it is proposed that the hearing of such application by the Court will be held at 1:30 p.m. (Calgary Time) on October 6, 1986 at the Court House, 611 - 4th Street S.W., Calgary, Alberta. All shareholders of the Corporation have the right to attend in person or by counsel and make submissions at such hearing in order to support or oppose the application for the Order.

3. The Order approving the Plan together with the amended Articles of Continuance and any other documents required to be filed there-with pursuant to Section 186 of the Act must be filed with the Director of Corporations (the "Director"). The Plan and the transactions contemplated thereunder become effective on the date shown on the Certificate of Amendment issued by the Director in relation to the filing of the Plan (the "Effective Date").

Variation of the Plan

After this Information Circular and Proxy Statement has been mailed to its shareholders, the Corporation may, by resolution of its board of directors, assent to any alteration, modification or condition to the Plan that the Court may think fit to approve or impose. However, HR may withdraw from the Plan if any material adverse change to the Corporation or HR arises as a result of any such change to the Plan. Furthermore, any variation to the Plan that reduces the number of Common Shares to be issued pursuant to the Conversion of Preferred Shares will require a further vote of the Corporation's shareholders.

Rights of Shareholders

Shareholders of the Corporation have the right to attend and vote at the Meeting and to attend and be heard by the Court all as more fully set forth under the heading "Required Vote and Court Approval". Under Section 186 of the Act shareholders of the Corporation do not have dissenting shareholders' rights in respect of the Plan giving them the right to have their shares appraised and to receive the fair value thereof.

Conditions to Implementation of the Plan

Under the terms of the Arrangement Agreement, the obligations of the Corporation and HR to file the Plan with the Director so as to cause it to become effective are subject to the satisfaction or waiver of certain conditions. Reference should be made to the Arrangement Agreement for the full text of the conditions. The Toronto Stock Exchange and the Alberta Stock Exchange at the date hereof have

conditionally approved the listing of the Common Shares. Listing is subject to the Corporation fulfilling all of the respective requirements of the exchanges, including distribution of the Common Shares to a minimum number of public shareholders and the completion of all the transactions contemplated by the Plan, the Arrangement Agreement and the Conveyance of Joint Venture Assets.

Vote of Principal Shareholder

To the best knowledge of the directors and management of the Corporation, no person or company owns beneficially, directly or indirectly, more than 10% of the issued and outstanding Common or Preferred Shares of the Corporation as of the Record Date except John M.S. Lecky (for more information in this regard, see the Heading "Principal Holder of Securities"). The Common Shares and the Preferred Shares each carry the right to one vote on any poll at the Meeting. It is the intention of Mr. Lecky to cause all shares he controls to be voted in favour of the Plan.

Purpose of the Plan

The purpose of the Plan and the Arrangement Agreement proposed herein to the shareholders of the Corporation is to improve the Corporation's financial condition by providing greater liquidity through retiring the outstanding Preferred Shares and the Corporation's bank debt obligations, the better to withstand the current downturn in market prices for oil and natural gas production. The Statements on pages 34 to 38 illustrate the projected impact of the Plan and the Share Rights Offering on the estimated net asset value of the Corporation as of June 30, 1986 based on alternative oil and natural gas price forecasts. The Share Rights Offering and the Debenture will provide the Corporation with a minimum of Eleven Million (\$11,000,000) Dollars and a maximum of Seventeen Million (\$17,000,000) Dollars of additional cash to eliminate the bank debt obligations, to retire the Preferred Shares and to provide funds for general corporate purposes. Additionally, the Conveyance of Joint Venture Assets (see the Heading, "Conveyance of Joint Venture Assets" elsewhere in this Information Circular) will provide approximately Two Million Five Hundred Thousand (\$2,500,000) Dollars in cash for general corporate purposes. See the Heading "Consolidated Capitalization" elsewhere in this Information Circular for the effects of the Plan, the Share Rights Offering and Conveyance of Joint Venture Assets upon the capital structure of the Corporation. In the opinion of the Corporation's directors, holders of both Common and Preferred Shares of the Corporation will be afforded a greater likelihood of investment appreciation if the Plan and the Arrangement Agreement are implemented.

Conveyance of Joint Venture Assets

The Corporation and Heli-Union B.E.A.S. Limited ("H-U") are parties to a Conveyance and Joint Venture Agreement made the 24th day of July, 1985 (the "JVA"). Further details of the JVA may be found elsewhere in this Information Circular under the heading "Material Contracts". The Corporation and H-U subsequently entered into a Conveyance Agreement dated June 11, 1986 whereby H-U will convey to the Corporation

all the assets it acquired, earned or held pursuant to the JVA together with the unexpended portion of the cash H-U was required to expend pursuant to the JVA, but had not so expended as of June 11, 1986, in return for the issuance of sixteen million Common Shares. The implementation of this Conveyance Agreement is not part of either the Arrangement Agreement or the Plan, but is conditional upon their Effective Date occurring. Accordingly, even if the Conveyance Agreement is approved by the shareholders of the Corporation at the Meeting, if the Arrangement Agreement and the Plan are not also approved, the provisions of the Conveyance Agreement will not become effective. In the event that the Effective Date of the Arrangement Agreement and the Plan occurs, the conveyance and issuance of Common Shares will occur simultaneously with the occurrence of the transactions contemplated by the Arrangement Agreement and the Plan on the Effective Date.

Effects of the Plan, Share Rights Offering and Conveyance of Joint Venture Assets

The Share Rights Offering and Conversion of Preferred Shares will increase the number of outstanding Common Shares by a minimum of fifty-four million shares and a maximum of one hundred and five million shares and the Conveyance of Joint Venture Assets by a further sixteen million shares, all numbers before the proposed one for twenty share consolidation into New Common Shares. The Corporation would then be debt free with cash reserves of between Five Hundred Thousand (\$500,000) Dollars and Thirteen Million (\$13,000,000) Dollars uncommitted (see the Consolidated Balance Sheet and Statements on pages 33 to 38) and only Common Shares in its equity capitalization as all outstanding Preferred Shares will be cancelled upon conversion under the Plan. Assuming that no Common Share Rights are exercised by the current registered holders of Common Shares or Preferred Shares but reflecting the issuance of Common Shares for the Joint Venture Assets, HR and H-U will collectively own fifty-six million Common Shares, being 67% of the Common Shares issued and outstanding if all holders of Preferred Shares took the Cash Plus Shares Option, or 47% of the Common Shares issued and outstanding if all holders of Preferred Shares took the All Shares Option. If the Debenture was issued to its Three Million (\$3,000,000) Dollar maximum and converted to Common Shares (or their equivalent in New Common Shares) at Twenty-five (\$0.25) Cents per Common Share, a further twelve million Common Shares would be issued to HR increasing its ownership along with that of H-U to 71% or 52%, respectively.

The Statements on the following pages illustrate the effects the Plan, the Arrangement Agreement and Conveyance of Joint Venture Assets will have upon the financial structure of the Corporation.

COMPILATION REPORT

The Board of Directors
Westgrowth Petroleums Ltd.

We have reviewed, as to compilation only, the accompanying unaudited pro-forma consolidated balance sheet of Westgrowth Petroleums Ltd. as at June 30, 1986 which has been prepared for inclusion in the Information Circular related to the rights offering to the shareholders of Westgrowth Petroleums Ltd. In our opinion, the unaudited pro-forma consolidated balance sheet has been properly compiled to give effect to the proposed transactions and the assumptions described in the accompanying notes thereto.

Calgary, Alberta
September 11, 1986

Touche Ross & Co.
Chartered Accountants

WESTGROWTH PETROLEUMS LTD.

Pro-Forma Consolidated Balance Sheet
as at June 30, 1986

(Unaudited)

	Minimum Rights and Debenture Subscriptions (1)		Maximum Rights and Debenture Subscriptions (2)	
	Cash plus Shares Option (3)	All Shares Option (4)	Cash plus Shares Option (3)	All Shares Option (4)
<u>Assets</u>				
Working Capital (5)	\$ 665,000	7,711,000	6,478,000	13,524,000
Property, Plant and Equipment (8)				
Westgrowth	29,905,000	29,905,000	29,905,000	29,905,000
Jt. Venture	1,500,000	1,500,000	1,500,000	1,500,000
Other	31,000	31,000	31,000	31,000
	<u>\$ 32,101,000</u>	<u>39,147,000</u>	<u>37,914,000</u>	<u>44,960,000</u>
<u>Liabilities</u>				
Deferred Revenue	\$ 658,000	658,000	658,000	658,000
Long-Term Debt (6)	1,000,000	1,000,000	3,000,000	3,000,000
Deferred Income Taxes	1,951,000	1,951,000	1,951,000	1,951,000
<u>Shareholders' Equity</u>				
Share Capital *	28,492,000	35,538,000	32,305,000	39,351,000
Deficit *	--	--	--	--
	<u>\$ 32,101,000</u>	<u>39,147,000</u>	<u>37,914,000</u>	<u>44,960,000</u>

*Assuming that the proposed reduction of share capital was approved by the shareholders and was made retroactive to June 30, 1986.

See notes to Pro-Forma Consolidated Balance Sheet on pages 36 to 38.

WESTGROWTH PETROLEUMS LTD.

Statement of Estimated Net Asset Value (Base Case) *
as at June 30, 1986

	Minimum Rights and Debenture Subscriptions (1)		Maximum Rights and Debenture Subscriptions (2)	
	Cash plus Shares Option (3)	All Shares Option (4)	Cash plus Shares Option (3)	All Shares Option (4)
<u>Assets</u>				
Working Capital (5)	\$ 665,000	7,711,000	6,478,000	13,524,000
Fixed Assets (9)				
Westgrowth	42,104,000	42,104,000	42,104,000	42,104,000
Jt. Venture	2,042,000	2,042,000	2,042,000	2,042,000
Other Assets	31,000	31,000	31,000	31,000
	<u>\$ 44,842,000</u>	<u>51,888,000</u>	<u>50,655,000</u>	<u>57,701,000</u>
<u>Liabilities</u>				
Deferred Revenue	\$ 658,000	658,000	658,000	658,000
Long-Term Debt (6)	1,000,000	1,000,000	3,000,000	3,000,000
Deferred Income Taxes	1,951,000	1,951,000	1,951,000	1,951,000
<u>Shareholders' Equity</u>	<u>41,233,000</u>	<u>48,279,000</u>	<u>45,046,000</u>	<u>52,092,000</u>
	<u>\$ 44,842,000</u>	<u>51,888,000</u>	<u>50,655,000</u>	<u>57,701,000</u>
Shares Outstanding (7) (in '000)	84,026	119,257	100,077	135,309
Estimated Net Asset Value per Share	\$ 0.50	0.41	0.46	0.39

*For pricing assumptions see page 51 to 56.

WESTGROWTH PETROLEUMS LTD.

Statement of Estimated Net Asset Value (Low Case) *
as at June 30, 1986

	Minimum Rights and Debenture Subscriptions (1)		Maximum Rights and Debenture Subscriptions (2)	
	Cash plus Shares Option (3)	All Shares Option (4)	Cash plus Shares Option (3)	All Shares Option (4)
<u>Assets</u>				
Working Capital (5)	\$ 665,000	7,711,000	6,478,000	13,524,000
Fixed Assets (9)				
Westgrowth	24,744,000	24,744,000	24,744,000	24,744,000
Jt. Venture	1,172,000	1,172,000	1,172,000	1,172,000
Other Assets	31,000	31,000	31,000	31,000
	<u>\$ 26,612,000</u>	<u>33,658,000</u>	<u>32,425,000</u>	<u>39,471,000</u>
<u>Liabilities</u>				
Deferred Revenue	\$ 658,000	658,000	658,000	658,000
Long-Term Debt (6)	1,000,000	1,000,000	3,000,000	3,000,000
Deferred Income Taxes	1,951,000	1,951,000	1,951,000	1,951,000
<u>Shareholders' Equity</u>	<u>23,003,000</u>	<u>30,049,000</u>	<u>26,816,000</u>	<u>33,862,000</u>
	<u>\$ 26,612,000</u>	<u>33,658,000</u>	<u>32,425,000</u>	<u>39,471,000</u>
Shares Outstanding (7) (in '000)	84,026	119,257	100,077	135,309
Estimated Net Asset Value per Share	\$ 0.28	0.26	0.27	0.26

*For pricing assumptions see page 51 to 56.

WESTGROWTH PETROLEUMS LTD.

Notes to Pro-Forma Consolidated Balance Sheet
as at June 30, 1986

1. Minimum Rights and Debenture Subscriptions:

Assumes that no rights were subscribed other than pursuant to the underwriting commitment as to 40,000,000 rights by Helicopter Rentals and the Jt. Venture rollover:

	<u>Total Common Issued</u>	<u>Price</u>	<u>Amount</u>
Subscription of rights	40,000,000	\$0.25	\$10,000,000
Jt. Venture rollover	16,000,000	\$0.25	4,000,000
	<hr/>		<hr/>
Total	56,000,000		\$14,000,000
	<hr/> <hr/>		<hr/> <hr/>

Of the total consideration of \$14,000,000, approximately \$12,500,000 is in the form of cash and \$1,500,000 is in the form of Jt. Venture oil and gas property interests on a cost of acquisition basis.
See (6) below re debenture subscription.

2. Maximum Rights and Debenture Subscriptions:

Assumes that all the existing Westgrowth common and preferred shareholders subscribed and exercised rights to purchase Westgrowth common shares as follows:

<u>Class</u>	<u>Total Shares Outstanding</u>	<u>Subscription Entitlement</u>	<u>Total Common Issued</u>	<u>Share Price</u>	<u>Equity Subscription Amount</u>
Preferred	3,523,156	8 common	28,185,248	\$0.25	\$ 7,046,000
Common	13,933,075	2 common	27,866,150	\$0.25	6,967,000
			<hr/>		<hr/>
Total rights exercised			56,051,398		14,013,000
Jt. Venture rollover			16,000,000	\$0.25	4,000,000
			<hr/>		<hr/>
Total			72,051,398		\$18,013,000
			<hr/> <hr/>		<hr/> <hr/>

Of the total consideration of \$18,013,000, approximately \$16,513,000 is in the form of cash and \$1,500,000 is in the form of Jt. Venture oil and gas property interests on a cost of acquisition basis.
See (6) below re debenture subscription.

3. Cash plus Shares Option:

Assumes that all preferred shareholders elected for cash of \$2.00 plus 4 common shares for each preferred share held (i.e. 3,523,156 preferred shares x \$2.00 totalling \$7,046,000 cash required).

4. All Shares Option:

Assumes that all preferred shareholders elected for 14 common shares for each preferred share held.

5. Proceeds from subscriptions and issuance of shares are applied as follows:

- (i) Retire long-term debt of \$4,550,000.
- (ii) Eliminate working capital deficiency of \$1,039,000.
- (iii) Cash payment to preferred shareholders (Cash plus Shares Option - \$7,046,000), (All Shares Option - \$0)
- (iv) Payment of estimated share issue expenses (Minimum Rights - \$200,000), (Maximum Rights - \$400,000).
- (v) Residual amount after all of the above disbursements in cash as working capital.

Additionally, cash is assumed to be derived from proceeds of a convertible debenture - see (6) below.

6. Assuming use of the minimum \$1,000,000 convertible debenture in the case of minimum rights subscription and the maximum \$3,000,000 convertible debenture in the case of the maximum rights subscription. See page 26 for a description of the terms and conditions to the convertible debenture facility with HR.

7. Prior to the one for twenty share consolidation proposed in the Plan, and prior to conversion of the debenture (see 6).

8. Property, plant and equipment values are carried at historic values and do not reflect any adjustments which may arise as a result of the declining oil prices subsequent to December 31, 1985 or which may result from the issuance in August 1986 by the Canadian Institute of Chartered Accountants of a guideline for Full Cost Accounting in the Oil and Gas Industry. Management is unable to quantify the effect, if any, of these issues on the financial statements, at the present time.

9. Fixed asset values were derived as follows:

For Westgrowth values as per an independent engineering report using a discount rate of 15% before tax at December 31, 1985 prepared by Coles Nikiforuk Pennell & Associates ("CNP") on their Base and Low Case pricing scenarios with undeveloped Land at CNP appraised values thereof.

	<u>Base Case</u>	<u>Low Case</u>
Proven	\$ 25,798,000	14,118,000
Probable	12,138,000	6,458,000
Land	3,416,000	3,416,000
	<hr/>	<hr/>
	41,352,000	23,992,000
Add: 1st Half 1986 capital expenditures	2,577,000	2,577,000
Deduct: 1st Half 1986 net production	(1,825,000)	(1,825,000)
	<hr/>	<hr/>
	\$ 42,104,000	24,744,000
	<hr/> <hr/>	<hr/> <hr/>

For the Jt. Venture, values for reserves as at December 31, 1985 were derived by extrapolation from the same CNP report as used for Westgrowth to which amount 1st Half 1986 capital expenditures were added and 1st Half 1986 production was deducted.

Recommendations of Directors

The Plan and the Arrangement Agreement have been considered by the board of directors of the Corporation who believe that their implementation is in the best interests of the Corporation and the shareholders of the Corporation and that its terms are fair to all shareholders of the Corporation.

Share Certificates

As soon as practicable after the Effective Date, a letter of transmittal containing instructions for obtaining delivery of share certificates representing New Common Shares and the money payable arising out of the Conversion of the Preferred Shares and the Share Consolidation will be furnished to each registered holder of Shares. Upon the delivery to National Trust Company at its principal office in any of the cities of Montreal, Toronto, Calgary or Vancouver, of a duly completed letter of transmittal together with the share certificate or certificates formerly representing Common or Preferred Shares, such certificate or certificates to be accompanied by a proper assignment thereof duly completed in blank for transfer with the signature appropriately guaranteed, the certificates for the New Common Shares and any money payable resulting from the conversion shall be issued in such name or names and delivered to such address or addresses as such registered holder may direct in such letter of transmittal as soon as practicable after receipt by National Trust Company of such letter and certificates. No interest shall be payable by the Corporation to the holder on the money payable pursuant to the Conversion of Preferred Shares.

No fractional New Common Shares resulting from the consolidation (see "Share Consolidation") of the Common Shares will be issued. In the event a holder of Common Shares would otherwise be entitled to a fractional New Common Share an adjustment will be made to the next higher whole number of New Common Shares and certificates representing that whole number will be issued. In calculating fractional interests the Common Shares held by each registered holder as of the Effective Date and those to be issued to such registered holder as a consequence of the Conversion of Preferred Shares shall be aggregated.

Canadian Federal Income Tax Considerations

In the opinion of Macleod Dixon, counsel to the Corporation, the following is a fair and adequate summary of the Canadian federal income tax consequences of the Plan and the Arrangement Agreement to a shareholder of the Corporation. This summary does not take into account any provincial or foreign income tax considerations.

The following summary is only applicable to shareholders who are residents of Canada for the purposes of the Income Tax Act (Canada) (the "Income Tax Act") and who hold their shares of the Corporation as capital property.

Reduction of Common Share Capital Account

There are no immediate federal income tax consequences as a result of the reduction of the Common Share Capital Account. This reduction may affect the tax consequences to a holder of Common Shares of a liquidation of the Corporation or a purchase of Common Shares by the Corporation.

Common Share Rights

A holder of Preferred Shares will be required to include in income the fair market value, if any, of the Common Share Rights received by that holder as a holder of Preferred Shares. Such amount will be added to the adjusted cost base of the Common Share Rights for the purposes of the Income Tax Act. A holder of Common Shares will not be required to include any amount in income in respect of the Common Share Rights received by that holder as a holder of Common Shares.

Upon the exercise of Common Share Rights a holder will not be considered to have disposed of the Common Share Rights for the purposes of the Income Tax Act and the adjusted cost base of the Common Share Rights will be added to the cost of the Common Shares of the Corporation so acquired.

The expiry of Common Share Rights held as capital property will result in a capital loss to the holder equal to the adjusted cost base, if any, of the Common Share Rights. The disposition of Common Share Rights held as capital property will result in a capital gain or capital loss, as the case may be, equal to the difference between the proceeds of disposition and the adjusted cost base of the Common Share Rights.

Conversion of Preferred Shares

A holder of Preferred Shares will be considered to have disposed of the Preferred Shares for proceeds of disposition equal to the aggregate of:

1. the amount of cash receivable by the holder from the Corporation in respect of the conversion of Preferred Shares; and
2. the cost to the holder of the Common Shares receivable by the holder in respect of the conversion of Preferred Shares.

The cost to the holder of the Common Shares receivable in respect of the conversion of Preferred Shares will be the amount, if any, by which the adjusted cost base of the Preferred Shares immediately before the conversion to the holder for the purposes of the Income Tax Act exceeds the amount of cash receivable from the Corporation in respect of the conversion of Preferred Shares.

The disposition of Preferred Shares held as capital property will result in a capital gain or capital loss, as the case may be, equal

to the difference between the proceeds of disposition and the adjusted cost base of the Preferred Shares.

Disposition of Common Shares

Upon a disposition of Common Shares, a capital gain or capital loss will result to the extent that the proceeds of disposition, net of expenses of the disposition, exceed or are less than the adjusted cost base. Any taxable capital gains thereby realized must be included in income in the year of disposition. Any allowable capital losses thereby realized may be deducted from the amount of any taxable capital gains realized in the year of disposition. Capital losses which remain undeducted may, in general terms, be carried back three years and carried forward indefinitely, for deduction against capital gains realized in those years, generally on the same basis as described above.

The Income Tax Act currently provides that in computing the adjusted cost base to a taxpayer of property at any time, there shall be deducted, among other things, the amount of any assistance, subject to certain exceptions, which the taxpayer has received, or is entitled to receive, before that time from a government, municipality or other public authority in respect of or for the acquisition of, the property whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance. The Income Tax Act also provides that in computing the taxpayer's income for a taxation year there shall be added, among other things, any amount (other than a prescribed amount) received by the taxpayer in the year in the course of earning income from a business or property from a government, municipality or other public authority where the amount can reasonably be considered to have been received as a form of assistance, including a deduction from tax, in respect of the cost of the property to the extent that the amount was not otherwise included in computing the taxpayer's income and does not reduce the cost or capital cost of the property for the purposes of the Income Tax Act. A taxpayer may avoid the effect of this provision by electing to deduct the amount of the assistance from the cost or capital cost of the property.

If the former provision applies, the adjusted cost base of a Common Share will be reduced by the amount of any Alberta stock savings plan tax credit (see "Alberta Tax Considerations") which a purchaser is entitled to receive in respect of the acquisition thereof. If the former provision does not apply, the amount of any Alberta stock savings plan tax credit which a purchaser of a Common Share is entitled to receive will be added to income unless the purchaser elects to deduct the amount of the credit from the adjusted cost base of the Common Share. It is counsel's understanding that the Federal Minister of Finance has agreed to amend the Income Tax Act so that the Alberta stock savings plan tax credit will not have the effect of reducing the adjusted cost base of the Common Shares and to prescribe the Alberta stock savings plan tax credit so that such tax credit will not result in an income inclusion. If these amendments are made it is anticipated that any capital loss realized on the disposition of a Common Share will be deemed to be the amount of such loss otherwise determined less the amount of the Alberta stock savings plan tax credit earned as a result

of the acquisition of such Common Share. No assurance can be given that these amendments will in fact be made.

The Income Tax Act provides that all Common Shares held by an investor shall have an identical adjusted cost base equal to the total cost of all Common Shares (after taking any adjustments to the cost base into account) divided by the number of Common Shares held. Any tax consequences arising from a subsequent disposition of Common Shares will be measured by reference to such average cost.

Consolidation

The consolidation of twenty Common Shares into one New Common Share will not be a disposition of Common Shares for the purposes of the Income Tax Act. The adjusted cost base of one New Common Share held by a holder after the consolidation will be equal to the adjusted cost base to that holder of twenty Common Shares immediately prior to the consolidation.

Alberta Tax Considerations

The following discussion of Alberta income tax considerations is based on the Alberta Income Tax Act as amended to the date hereof (the "Alberta Act"), the regulations enacted pursuant thereto, the provisions of the ASSP Bill to enact the Alberta Stock Savings Plan Act (the ASSP Act") and amend the Alberta Act, and Macleod Dixon's understanding as to the manner in which certain provisions of the Alberta Act will be administered by Revenue Canada, as they apply to individuals (other than trusts) resident in the Province of Alberta for the purposes of the Alberta Act. Although no assurance can be given that the ASSP Bill will be enacted without modification, the following discussion is, except as otherwise noted, based on the assumption that it will be enacted without change with effect from February 1, 1986.

Alberta Stock Savings Plan

The ASSP Bill, if enacted, will amend the Alberta Act to provide for a special stock savings plan credit against taxes payable under the Alberta Act in respect of the cost of acquisition of shares of certain corporations carrying on business in Alberta that are acquired and held by individuals resident in Alberta under a stock savings plan with a qualified dealer in Alberta. Although the Alberta Act is administered by Revenue Canada, no advance tax rulings or opinions have been sought from Revenue Canada with respect to any issues discussed herein. However, this summary includes counsel's understanding as to how the Alberta Treasury expects certain relevant provisions will be administered by Revenue Canada.

General

Generally, individuals (other than trusts) resident in Alberta on the last day of a taxation year are entitled to a credit against taxes payable under the Alberta Act based on a percentage of the cost

amount of eligible shares acquired by them and held under one or more stock savings plans with qualified dealers in Alberta.

On July 25, 1986, Alberta Treasury issued to the Corporation a provisional Certificate of Eligibility with respect to the Common Shares that are to be issued pursuant to the Common Share Rights. The Corporation was classified as an expanding corporation, thereby entitling an investor to recognize 15% of the cost amount of the Common Shares in calculating the amount of the tax credit to which the investor is entitled under the Alberta Act.

The cost amount to an investor of eligible shares issued pursuant to a Certificate of Eligibility applied for after April 7, 1986 and contributed to a stock savings plan for the purposes of the proposed stock savings plan program is the amount of money paid by the investor, but not including any brokerage or custody fee or similar charge. In general the amount of the credit in any particular year is the lesser of the relevant percentage of the cost amount of eligible shares acquired by an individual in the year and \$3,000 and is obtained by filing with his federal income tax return for the year a relevant statement of investment provided by the qualified dealer and the prescribed stock savings plan tax credit form.

Therefore investors who acquire Common Shares pursuant to the Common Share Rights and contribute such Common Shares to a stock savings plan will be entitled to recognize 15% of the aggregate subscription price paid by them in calculating the amount of the credit to which they are entitled.

Calculation of Tax Credit

The stock savings plan tax credit of an individual will generally be the lesser of his "stock savings plan tax credit balance" at the end of the year and \$3,000. For this purpose, the "stock savings plan tax credit balance" at the end of the year is his stock savings plan tax credit balance at the end of the previous year plus the relevant percentage of the cost amount of eligible shares acquired and contributed by him to his stock savings plans in the year less the relevant percentage of the adjusted cost amount of eligible shares withdrawn from such plans in the year.

Where the Alberta tax payable in a particular year is less than the allowable credit for the year, the deficiency may be carried forward and deducted against Alberta taxes payable in subsequent taxation years. No carry back of any deficiency to previous years is permitted.

Investors who withdraw eligible shares from a stock savings plan at any time within the two calendar years following the calendar year in which they were contributed to the plan will be required to recapture the tax credit unless the investor has acquired in substitution therefor eligible shares having at least the same tax credit value or one of the specified exceptions applies. An eligible share will be deemed to have been withdrawn from a stock savings plan if the

security certificate evidencing it is removed from the custody of the qualified dealer.

Establishing a Stock Savings Plan

Investors who wish to qualify Common Shares of the Corporation as eligible shares for the purposes of the ASSP Bill must establish a stock savings plan with a qualified dealer in Alberta and direct National Trust Company or the Corporation to deliver share certificates evidencing such Common Shares to the qualified dealer to be held under the stock savings plan.

For these purposes, a stock savings plan is an arrangement between a qualified dealer and an individual under which the dealer holds those eligible shares owned by the individual that the individual designates for the purpose of entitling the individual to a stock savings plan tax credit. An arrangement that qualifies as a "retirement savings plan" for the purposes of the Income Tax Act will not qualify as a stock savings plan.

A qualified dealer is a person having a permanent establishment in Alberta who is registered to trade in securities as principal or agent under the Alberta Securities Act and who is a member of the Alberta Stock Exchange.

Revocation or Amendment of Certificate

In certain circumstances, the Provincial Treasurer may revoke a Certificate of Eligibility within three years after the date thereof. In addition, if the Provincial Treasurer determines that an eligible corporation was incorrectly classified as an emerging, expanding or mature corporation, he may amend the Certificate of Eligibility to reflect the correct classification. If the Certificate of Eligibility is revoked, the Corporation is required to pay to the Provincial Treasurer the relevant percentage of the subscription prices for all shares issued by the corporation prior to the effective date of revocation together with interest. If the Certificate of Eligibility is amended, the corporation is required to pay to the Provincial Treasurer the product obtained when the amount, if any, by which the relevant percentage before the amendment exceeds the relevant percentage after the amendment is multiplied by the aggregate of the subscription prices of all shares issued by the corporation prior to the effective date of the amendment.

OTHER MATTERS

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

BUSINESS AND PROPERTIES

History and Description of Business

The Corporation was incorporated as a specially limited company on July 11, 1956 under the British Columbia Companies Act as Freehold Gas & Oil Ltd. (Non-Personal Liability). Its name was changed to Westgrowth Petroleums Ltd. (N.P.L.) on January 19, 1979 and on July 28, 1980 it was converted to the status of a limited company, Westgrowth Petroleums Ltd., pursuant to the British Columbia Companies Act. On August 12, 1980 the Corporation was continued to the jurisdiction of Alberta under the Alberta Companies Act. On July 11, 1984 it was continued as a corporation under the Business Corporations Act (Alberta). Its head office and principal place of business is at 1400, 144 - 4th Avenue S.W., Calgary, Alberta, T2P 3N4.

The Corporation has three wholly owned subsidiaries. Westgrowth Petroleums, Inc. is a company incorporated under and subject to the Laws of the State of Delaware. British Canadian Resources Ltd. was incorporated under the name 98567 Canada Inc. on May 13, 1980 under the provisions of the Canada Business Corporations Act. On October 20, 1980 its name was changed to British Canadian Resources Ltd. British Canadian Resources Ltd. was continued to the jurisdiction of Alberta under the Business Corporations Act (Alberta) on June 23, 1986. St. John's Petroleum Ltd. was originally incorporated as Columbia Metals Exploration Co., Ltd. pursuant to the provisions of the Companies Act of Saskatchewan effective as of October 12, 1954. By Certificate No. 3276 dated February 22, 1965 the name was changed to Mid-Can Exploration Ltd., and then to St. John's Petroleum Ltd. by Certificate of Amendment No. 301874 on May 17, 1982. Effective June 25, 1985, St. John's Petroleum Ltd. amalgamated with 573828 Saskatchewan Ltd. thus becoming a wholly-owned subsidiary of the Corporation. The assets and liabilities of St. John's Petroleum Ltd. are currently in the process of transfer to the Corporation. Once that process is complete it will be liquidated. Unless the context indicates otherwise, reference to the Corporation also includes the Corporation's subsidiaries.

The Corporation is an Alberta based company which explores for, develops and produces oil and natural gas primarily in the Provinces of Alberta and British Columbia and, through its wholly-owned subsidiary Westgrowth Petroleums, Inc., to a limited extent only in the United States. Its most active areas of operation are currently Retlaw in South-Central Alberta, Little Bow in Southern Alberta and Craigmyle in Central Alberta.

The Corporation's management team is experienced in finding, and developing, oil and gas assets in Southern and Central Alberta. The majority of the exploration and development budget forecast to be approximately Three Million (\$3,000,000) Dollars for 1986 prior to the proposed transactions contemplated in the Plan will be committed to oil prospects including enhanced recovery project expenditures at Retlaw. The Corporation generally participates in exploratory prospects at a 25% to 50% working interest level.

Production and Development Operations

Principal Properties

The following is a brief description of the Corporation's more significant oil and gas interests and activities.

Berland River Area

This prospect is in a very sparsely explored area of west central Alberta, approximately 180 miles west of Edmonton. The Corporation owns working interests ranging from 3% to 20% in 38,955 gross acres of land. To date, 2.5 billion cubic feet of net gas reserves have been assigned to the Upper Cretaceous Cardium Zone. It is expected that the gas reserves will go to the United States export market and production could possibly go onstream in 1988.

The potential for oil in the Cardium Zone has been evaluated, specifically in two exploration wells, which are currently shutin. In the future, as the economic climate permits, further wells may be drilled to extract oil from the zone in an effort to generate near-term cash flow while the gas reserves are awaiting development and marketing.

Carrot Creek Area

The Corporation has a 13% working interest in this project which is located in an area approximately 100 miles west of Edmonton where there is currently a great deal of exploration in the Cardium Formation.

In 1984 a well was drilled on the land at the location 4-2-52-13 W5M, encountering 18 metres of oil pay in the Cardium Formation. The well was perforated and put on production at an allowable rate of 182 barrels of oil per day which enabled the working interest group to recover the drilling, completion and tie-in costs in approximately three months. The well has an estimated production capacity of over 500 barrels of oil per day, but as of the date hereof has a revised allowable of 54 barrels per day.

In 1984 a well was drilled in 12-2-52-13 W5M to offset the first well, but the oil-bearing Cardium Formation was found to be only two metres thick at this site. No further drilling is currently planned for the Carrot Creek property, but the Cardium pool is being unitized in order that a pressure maintenance scheme can be initiated and a higher pool production rate established. It is expected that unitization of the pool will become effective by the end of 1986.

Craigmyle Region

The Corporation's interests in this highly prospective region are at Craigmyle and at Delia, Handhills and Michichi, south of Craigmyle. At present, the Corporation has interests in gross 34,080 acres in the Region.

In the Craigmyle area, 75 miles northeast of Calgary, the Corporation presently has working interests ranging from 8% to 50% in 9 gas wells and 5 oil wells and 13,280 gross acres (1,980 net acres). Gas production from the Lower Cretaceous Glauconite Formation and Upper Cretaceous Basal Belly River Formation started in early 1984. Late in 1985, oil was discovered in the Mississippian Banff Formation and currently 4 oil wells are pumping from the Banff 'A' Pool at allowable rates of up to 64 barrels per day. It is anticipated that in the near future steps will be taken by pool owners to unitize and establish an enhanced recovery scheme to more efficiently produce these reserves. In addition to the Banff wells, a Lower Cretaceous Detrital zone is on production.

In late 1985, the Corporation successfully purchased a four section exploration licence (50% working interest) located 10 miles southwest of Craigmyle in the Delia area. The acreage is prospective for Mississippian Banff oil and in 1986 exploration of the block proceeded with a seismic program. Several drilling prospects have been identified from the seismic and further exploration is anticipated.

The Handhills area is located in the Mississippian Banff oil play about 20 miles southeast of Craigmyle. To date the Corporation and partners have purchased three exploration licences and five leases at Crown land sales and farmed-in on an eight section block. The Corporation has working interests ranging from 25% to 37.5% in 21 gross sections (13,440 acres) of land. In 1986, one seismic program has been shot and three wells drilled, the results of which are being held confidential pending further Crown land sales in the area.

In 1985 the Corporation and partners were successful in purchasing a 4.5 section (2,880 gross acres) exploration licence located 12 miles southwest of Craigmyle in the Michichi area. The licence, in which the Corporation has a 33.33% working interest, is well situated on the regional Mississippian Banff oil play in the area and it is anticipated that exploration of the block should occur in 1986 or early 1987. Initial exploration will be the re-entry and attempted completion of the Banff zone in a cased well bore purchased by the exploration group in 1986.

Little Bow Area

In 1985 the Corporation negotiated a farmin whereby it was to earn certain interests in 3.5 gross sections of lease acreage and an existing Lower Cretaceous Glauconite oil pool and associated wells and facilities. The pool had been under waterflood since 1978 and contained four producing wells and two injector wells.

The Corporation drilled six delineation wells in 1985 and early 1986 and thereby added new oil reserves and four producing wells while earning a net 31.3% working interest in the entire pool. Currently the Corporation and partners are reviewing an upgraded waterflood scheme for the pool and, in the future, it is anticipated that a carbon dioxide alternating with waterflood scheme could be implemented.

Pine/Shiningbank Area

In this area, located 125 miles west of Edmonton, there are prospects for large gas reserves in several Lower Cretaceous sand zones, as well as oil production from the Upper Cretaceous Formations. The Corporation presently has various working interests in 19 sections of land.

To date, the 10-12-57-19 W5M well drilled in 1980 remains the best gas well on these lands, with an indicated gross 16 billion cubic feet of total proven plus probable gas reserves in three zones. The Corporation's share of proven and probable reserves was 6.3 billion cubic feet at year end 1985. Three locations have been identified in this area for potential offset wells, the development of which is tied to gas export markets forecast to go onstream in 1988.

Retlaw Area

The Retlaw area, 100 miles southeast of Calgary, is the Corporation's most significant property in that at year-end 1985 it represents about 55% and 25% of the Corporation's oil and gas reserves, respectively, and produced over half of the Corporation's revenues in 1985.

Most of the Corporation's oil reserves are produced under enhanced recovery through the Retlaw Upper Mannville 'V' Pool Unit (the "Unit") formed in October, 1983, and at that time the Corporation began a carbon dioxide enhanced oil recovery project with royalty relief accorded by the Energy Resources Conservation Board of Alberta. Carbon dioxide, derived as a byproduct from the nearby Turin gas plant, is gathered, compressed and injected into the pool. The injected carbon dioxide displaces more of the original oil in place increasing the total amount which can be eventually recovered. It is expected that ultimate recovery from the pool could increase from about 8% on a Primary basis up to 35% of the original oil in place.

During 1984-85, significant efforts were directed toward the development of the southern portion of the Mannville 'V' Pool not then in the Unit. When the delineation work was complete, eleven additional wells were brought into the Unit in 1985 bringing the Corporation's working interest to 35% in the expanded Unit. A total of seven injection wells and 25 producing wells are now in operation.

Currently, the results of carbon dioxide injection are being reflected in significantly increased production rates. First half 1986 Unit production was at a 600-700 barrels per day rate compared to a 125 barrels per day rate at the end of 1984 and an average rate of 505 - barrels per day for 1985.

By the end of 1986 it is anticipated that a water alternating with gas scheme will be implemented in the Unit where maximum levels of CO₂ have been injected. Such a scheme should significantly reduce operating costs, while maintaining high levels of production, which are

expected to further increase in 1987-88 from the benefit of carbon dioxide, particularly in the southern portion of the expanded Unit.

Virgo Area

The Corporation owns a 50% working interest in a petroleum and natural gas mineral lease consisting of a half section of acreage located in the Zama-Virgo Basin, 450 miles northwest of Edmonton. The lease is situated in an area of prolific oil production from the Middle Devonian Muskeg and Keg River formations.

In 1986, the Corporation and its partners acquired 17 miles of seismic data and have identified two drilling locations anticipated to be on Keg River pinnacle reefs. It is expected the first of these features will be drilled when the local surface conditions permit in the winter of 1986 - 1987.

Oil and Gas Well Summary

The following table summarizes the status and the interest of the Corporation in wells capable of production as at June 30, 1986.

<u>Area</u>	<u>Status</u>						<u>Non Producing</u>	
	<u>Producing Wells</u>						<u>Gross Wells</u>	<u>Net Wells</u>
	<u>Oil</u>		<u>Gas</u>		<u>Total</u>			
	<u>Gross Wells</u>	<u>Net Wells</u>	<u>Gross Wells</u>	<u>Net Wells</u>	<u>Gross Wells</u>	<u>Net Wells</u>	<u>Gross Wells</u>	<u>Net Wells</u>
<u>Canada</u>								
(by Province)								
Alberta	85	18.92	29	8.48	114	27.40	67	17.80
Sask.	482	1.02	--	--	482	1.02	56	.96
B.C.	--	--	1	.29	1	.29	8	1.58
<u>U.S.A.</u>								
(by State)								
Kansas	1	.13	--	--	1	.13	4	.58
Texas	3	.28	2	.15	5	.43	1	.07
	<u>571</u>	<u>20.35</u>	<u>32</u>	<u>8.92</u>	<u>603</u>	<u>29.27</u>	<u>136</u>	<u>20.99</u>

Drilling Results

The following table summarizes as at June 30, 1986 the results of the drilling activities of the Corporation in Canada.

	Gross			Total	Oil and Gas Wells as a percentage of Total Gross Wells
	Oil	Gas	Dry		
1981	21	28	15	64	76.5
1982	10	8	4	22	81.8
1983	7	10	6	23	73.9
1984	12	2	10	24	58.3
1985	13	6	6	25	76.0
1986	<u>4</u>	<u>1</u>	<u>5</u>	<u>10</u>	<u>55.5</u>
Total	<u>67</u>	<u>55</u>	<u>46</u>	<u>168</u>	<u>73.0</u>

Oil and Natural Gas Production

The following table summarizes the oil and natural gas production of the Corporation for the last five completed financial years and for the period ending June 30, 1986.

	Crude Oil (Barrels)	Natural Gas (Thousands of Cubic Feet)	Total Value After Royalties (Cdn. \$)
<u>1981</u>			
Canada	27,214	935,653	2,013,212
United States	4,848	29,357	291,953
<u>1982</u>			
Canada	74,582	1,717,268	5,292,087
United States	7,208	34,983	329,902
<u>1983</u>			
Canada	50,964	1,043,534	4,023,206
United States	6,676	24,796	214,915
<u>1984</u>			
Canada	74,281	861,840	5,752,882
United States	2,082	27,436	195,280
<u>1985</u>			
Canada	117,951	1,153,317	6,079,530
United States	1,198	20,650	165,832
<u>1986</u>			
Canada	79,692	568,515	2,369,000
United States	610	11,400	12,018

Distances to Pipelines

The following lists the Corporation's major non-producing properties and the distances therefrom, in miles, to the nearest pipeline:

Berland River	10
Craigmyle	3
East Retlaw	6
Kiron	2
Leedale	2
Sexsmith	3
Shiningbank	6

Oil and Natural Gas Reserves

A report (as amended, the "CNP Report") dated January 1, 1986, prepared by Coles, Nikiforuk, Pennell Associates Ltd., independent engineering consultants, estimated as at December 31, 1985, the proven and probable oil and natural gas reserves of the Corporation and the estimated future net cash flow from such reserves. These estimates are summarized in the tables below using each of three pricing models used by the said firm.

The first table, the "constant case" pricing model, assumes constant prices for oil and natural gas and no escalation of costs. For the purposes of comparison, the second and third tables, the "low case" pricing model and the "base case" pricing model, assume some escalation of prices and costs; the critical assumptions relating to these forecasts are set forth in detail in the notes accompanying such tables.

The CNP Report does not provide a breakdown by jurisdiction in respect of "constant case" and "base case" price assumptions. However, the estimated future net cash flow for each jurisdiction under the "base case" and "constant case" price assumptions will be directly proportional to the estimated net cash flow for each jurisdiction under the "low case" price assumptions.

Reserve estimates are by their very nature inexact. The estimates are expected to change as future information becomes available. THE ESTIMATES ARE NOT TO BE CONSTRUED AS A REPRESENTATION OF THE FAIR MARKET VALUE OF THE PROPERTIES TO WHICH THEY RELATE. IN THE CURRENT WORLD MARKET, OIL AND NATURAL GAS PRICES ARE EXTREMELY VOLATILE; SHAREHOLDERS ARE WARNED THAT TOTAL RELIANCE UPON THE VALUES SET FORTH IN THE FOLLOWING TABLES IS INADVISABLE. IN ADDITION, THE PRESENT WORTH OF NET REVENUES OF THE PROBABLE RESERVES HAS NOT BEEN REDUCED FOR RISK.

All estimates of future net cash flow set forth in the tables are stated prior to a provision for income taxes. All Proven Producing Reserves as set out in the following estimates are currently on

production. Other assumptions relating to costs, prices for future production and other matters are included in the the CNP Report and summarized in the notes below.

Canadian Petroleum and Natural Gas Reserves and estimated future net cash flow as at January 1, 1986, based on CNP's February 1, 1986 "constant case" price assumptions(1)(7)

	<u>Net Reserves</u> ⁽²⁾		<u>Net Cash Flow at the Discount Rate Indicated Below</u> (in \$ million)			
	<u>Oil & NGL</u> (mstb)	<u>Natural Gas</u> (Bcf)	<u>0%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
	Proven Producing (3)	1013.0	7.1	13.0	8.8	7.6
Proven Non Producing (4)	<u>116.4</u>	<u>11.3</u>	<u>14.8</u>	<u>5.5</u>	<u>3.8</u>	<u>2.6</u>
Total Proven	1129.4	18.4	27.8	14.3	11.4	9.4
Probable	<u>626.6</u>	<u>8.3</u>	<u>16.4</u>	<u>6.6</u>	<u>4.7</u>	<u>3.5</u>
Proven & Probable	1756.0	26.7	44.2	20.9	16.1	12.9

Canadian Petroleum and Natural Gas Reserves and estimated future net cash flow as at January 1, 1986 based on CNP's February 1, 1986 "low case" escalating price assumptions(1)(7)

A. <u>ALBERTA</u>	<u>Net Reserves</u> ⁽²⁾		<u>Net Cash Flow at the Discount Rate Indicated Below</u> (in \$ thousand)			
	<u>Oil & NGL</u> (mstb)	<u>Natural Gas</u> (Bcf)	<u>0%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
	Proven Producing (3)	929.3	7.0	13928.5	9108.9	7796.2
Proven Non Producing (4)	<u>92.6</u>	<u>9.1</u>	<u>24487.5</u>	<u>8068.4</u>	<u>5290.5</u>	<u>3663.5</u>
Total Proven (5)	1021.9	16.1	38416.0	17177.3	13086.7	10500.0
Probable (6)	<u>597.9</u>	<u>6.5</u>	<u>25430.7</u>	<u>8496.0</u>	<u>5746.2</u>	<u>4142.9</u>
Proven & Probable	1619.8	22.6	63846.7	25673.3	18832.9	14642.9

B. BRITISH COLUMBIA

Proven Producing (3)	1.3	0.1	58.4	42.7	37.6	33.6
Proven Non						
Producing (4)	<u>19.4</u>	<u>1.7</u>	<u>4989.0</u>	<u>895.4</u>	<u>509.4</u>	<u>311.1</u>
Total Proven (5)	<u>20.7</u>	<u>1.8</u>	<u>5047.4</u>	<u>938.1</u>	<u>547.0</u>	<u>344.7</u>
Probable (6)	<u>9.8</u>	<u>1.5</u>	<u>3437.1</u>	<u>973.6</u>	<u>599.1</u>	<u>392.9</u>
Proven & Probable	<u>30.5</u>	<u>3.3</u>	<u>8484.5</u>	<u>1911.7</u>	<u>1146.1</u>	<u>737.6</u>

C. SASKATCHEWAN

Proven Producing (3)	75.6	-	1254.0	387.9	279.8	219.4
Proven Non						
Producing (4)	<u>1.0</u>	-	<u>-88.4</u>	<u>-24.7</u>	<u>-26.1</u>	<u>-28.5</u>
Total Proven (5)	<u>76.6</u>	-	<u>1165.6</u>	<u>363.2</u>	<u>253.7</u>	<u>190.9</u>
Probable (6)	<u>13.8</u>	-	<u>397.4</u>	<u>35.1</u>	<u>12.4</u>	<u>3.0</u>
Proven & Probable	<u>90.4</u>	-	<u>1563.0</u>	<u>398.3</u>	<u>266.1</u>	<u>193.9</u>

D. 35% Working Interest
in 80/81 Energy Program

Proven Producing (3)	2.5	-	55.0	25.7	19.6	15.8
Proven Non						
Producing (4)	<u>0.9</u>	<u>0.2</u>	<u>633.7</u>	<u>179.4</u>	<u>114.5</u>	<u>77.4</u>
Total Proven (5)	<u>3.4</u>	<u>0.2</u>	<u>688.7</u>	<u>205.1</u>	<u>134.1</u>	<u>93.2</u>
Probable (6)	<u>2.5</u>	<u>0.1</u>	<u>402.2</u>	<u>138.4</u>	<u>94.3</u>	<u>68.6</u>
Proven & Probable	<u>5.9</u>	<u>0.3</u>	<u>1090.9</u>	<u>343.5</u>	<u>228.4</u>	<u>161.8</u>

E. ARTC* ENHANCEMENT

Proven Producing (3)	-	-	102.0	97.3	95.1	93.1
Proven Non						
Producing (4)	-	-	<u>2.0</u>	<u>1.9</u>	<u>1.9</u>	<u>1.8</u>
Total Proven (5)	-	-	<u>104.0</u>	<u>99.2</u>	<u>97.0</u>	<u>94.9</u>
Probable (6)	-	-	<u>6.0</u>	<u>5.7</u>	<u>5.6</u>	<u>5.5</u>
Proven & Probable	-	-	<u>110.0</u>	<u>104.9</u>	<u>102.6</u>	<u>100.4</u>

* Alberta Royalty Tax Credit

F. TOTAL

Proven Producing (3)	1008.7	7.1	15398.0	9662.4	8228.3	7198.4
Proven Non						
Producing (4)	<u>113.7</u>	<u>11.0</u>	<u>30023.7</u>	<u>9120.5</u>	<u>5890.1</u>	<u>4025.4</u>
Total Proven (5)	<u>1122.4</u>	<u>18.1</u>	<u>45421.7</u>	<u>18782.9</u>	<u>14118.4</u>	<u>11223.8</u>
Probable (6)	<u>624.1</u>	<u>8.2</u>	<u>29673.4</u>	<u>9648.7</u>	<u>6457.7</u>	<u>4612.7</u>
Proven & Probable	<u>1746.5</u>	<u>26.3</u>	<u>75095.1</u>	<u>28431.6</u>	<u>20576.1</u>	<u>15836.5</u>

Canadian Petroleum and Natural Gas Reserves and estimated future net cash flow as at January 1, 1986, based on CNP's February 1, 1986 "base case" price assumptions(1)(7)

	<u>Net Reserves</u> ⁽²⁾		<u>Net Cash Flow at the Discount Rate Indicated Below</u> (in \$ million)			
	<u>Oil & Natural</u>					
	<u>NGL</u> (mstb)	<u>Gas</u> (Bcf)	<u>0%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
Proven Producing (3)	1023.7	7.2	32.8	18.0	14.8	12.6
Proven Non Producing (4)	109.4	10.4	60.9	17.2	11.0	7.5
Total Proven (5)	1133.1	17.6	93.7	35.2	25.8	20.1
Probable (6)	612.6	7.9	63.8	18.7	12.1	8.5
Proven & Probable	1745.7	25.5	157.5	53.9	37.9	28.6

NOTES:

(1) CNP pricing and exchange rate assumption tables.

(A) West Texas Intermediate at Cushing, Oklahoma spot market average price (D2/S2).

(B) TCPL contract price without "Topgas" payments.

Summary of Price Forecasts
Effective February 1, 1986

	<u>Year</u>	<u>Oil (A)</u> (U.S.\$/bbl.)	<u>Gas (B)</u> (Cdn.\$/mcf)	<u>Exchange Rate</u> (U.S./Cdn.)
CONSTANT CASE	1986	14.00	2.25	0.70
	1987	14.00	1.40	0.705
	1988	14.00	1.40	0.71
	1989	14.00	1.40	0.715
	1990	14.00	1.40	0.72
	1991	14.00	1.40	0.725
	1992	14.00	1.40	0.73
	1993	14.00	1.40	0.735
	1994	14.00	1.40	0.74
	1995	14.00	1.40	0.75
	1996	14.00	1.40	0.75

	<u>Year</u>	<u>Oil (A)</u> (U.S.\$/bl.)	<u>Gas (B)</u> (Cdn.\$/mcf)	<u>Exchange Rate</u> (\$U.S./\$Cdn.)
LOW CASE	1986	14.00	2.65	0.70
	1987	14.00	1.60	0.705
	1988	14.50	1.65	0.71
	1989	15.00	1.75	0.715
	1990	15.75	1.85	0.72
	1991	16.50	1.95	0.725
	1992	17.25	2.05	0.73
	1993	18.25	2.15	0.735
	1994	19.25	2.25	0.74
	1995	20.00	2.35	0.75
	1996+	5% p.a. escalation	5% p.a.	0.75

	<u>Year</u>	<u>Oil (A)</u> (U.S.\$/bl.)	<u>Gas (B)</u> (Cdn.\$/mcf)	<u>Exchange Rate</u> (\$U.S./\$Cdn.)
BASE CASE	1986	18.00	2.65	0.70
	1987	19.00	2.40	0.705
	1988	20.00	2.40	0.71
	1989	22.00	2.55	0.715
	1990	24.00	2.80	0.72
	1991	26.00	3.05	0.725
	1992	28.00	3.30	0.73
	1993	30.00	3.55	0.74
	1994	33.00	3.90	0.75
	1995	36.00	4.25	0.75
	1996+	7% p.a. escalation	7% p.a.	0.75

Gas Purchaser Nomination Forecast
Effective February 1, 1986

<u>Year</u>	<u>TCPL</u> <u>Nomination</u>	<u>Pan-Alberta</u> <u>Nomination</u>	<u>KannGaz</u> <u>Nomination</u>	<u>British Columbia</u> <u>Nomination</u>
1986	57% DCQ	45% DCQ	--	50% MDV
1987	65% DCQ	50% DCQ	--	55% MDV
1988	70% DCQ	60% DCQ	20% DCQ	60% MDV
1989	85% DCQ	70% DCQ	85% DCQ	72% MDV
1990	100% DCQ	80% DCQ	85% DCQ	72% MDV
1991	100% DCQ	100% DCQ	85% DCQ	72% MDV
1992	100% DCQ	100% DCQ	85% DCQ	72% MDV
1993	100% DCQ	100% DCQ	85% DCQ	72% MDV
1994	100% DCQ	100% DCQ	85% DCQ	72% MDV
1995	100% DCQ	100% DCQ	85% DCQ	72% MDV
1996+	100% DCQ	100% DCQ	85% DCQ	72% MDV

Notes to Gas Purchaser Nomination Forecast

- Nomination estimates are for calendar not contract years
- DCQ = Daily Contract Quantity
- MDV = Maximum Daily Volume

(2) Net after royalty reserves.

(3) "Proven Producing Reserves" are those proven reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reasons for the current nonproducing status is the choice of the owner rather than the lack of markets or some other reasons. An illustration of such a situation is where a well or zone is capable but is shut-in because its deliverability is not required to meet contract commitments.

(4) "Proven Non-producing Reserves" are those proven reserves that are not currently producing due to lack of facilities and/or markets.

(5) "Proven Reserves" are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

(6) "Probable Reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proven under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proven category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

(7) The Corporation has no appreciable reserves in the U.S.A.

Net undiscounted capital expenditures required to produce the proven reserves under the Low Case Price Assumption are \$3,123,000, with an expenditure of \$871,000 in 1986 and \$432,000 in 1987. These amounts have been deducted when calculating the present value of the net pretax cash flow from the reserves.

A copy of the the CNP Report is available for inspection at the offices of the Corporation at 1400, 144 - 4th Avenue S.W., Calgary, Alberta, during normal business hours.

Land Holdings

The following table provides a summary of the Corporation's land holdings, both in gross and net acres as at June 30, 1986.

	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Gross Royalty Acres</u>
Alberta	188,110.97	41,050.50	3,634.87
B.C.	43,860.64	9,773.84	96.45
Saskatchewan	53,507.40	249.90	110.00
Total Canada	285,479.01	51,074.24	3,841.32
United States	1,576.00	403.17	1,421.70
North Sea	166,700.00	75,025.00	--
	<u> </u>	<u> </u>	<u> </u>
TOTAL	<u>453,755.01</u>	<u>126,502.41</u>	<u>5,263.02</u>

Evaluation of Undeveloped Properties

As at December 31, 1985, the Corporation held an interest in 180,582 gross (39,309 net) acres in Canada to which reserves have not been assigned. In the CNP Report the value of the undeveloped acreage in Canada was appraised at approximately \$3,416,000 and no evaluation has been made of foreign undeveloped property interests. A summary of this report may be inspected at the head office of the Corporation at 1400, 144 - 4th Avenue S.W., Calgary, Alberta during normal business hours. No values have been assigned to foreign property interests.

Material Acquisitions and Dispositions

1. On April 12, 1985 the Corporation entered into an Amalgamation Agreement with St. John's Petroleum Ltd. ("St. John's") and 573828 Saskatchewan Ltd., the latter company being a wholly owned subsidiary of the Corporation. Pursuant to the terms of the Amalgamation Agreement, St. John's and 573828 Saskatchewan Ltd. were amalgamated under the provisions of the Business Corporations Act (Saskatchewan). Each shareholder of St. John's received three Common Shares of the Corporation for each five St. John's common shares held. The Corporation received one common share of the amalgamated corporation for each common share previously held in 573828. A total of more than 2,300,000 Common Shares in the Corporation were issued in respect of this transaction which was effected on June 25, 1985. Immediately subsequent to the amalgamation the assets of St. John's were transferred to the Corporation. At the time of the amalgamation these assets were valued by the Corporation at approximately One Million Six Hundred Thousand (\$1,600,000) Dollars.

2. Pursuant to a Conveyance and Joint Venture Agreement ("JVA") dated July 24, 1985, the Corporation conveyed to Heli-Union B.E.A.S. Limited ("H-U") certain interests in petroleum and natural gas properties in consideration of approximately One Million, Three Hundred Thousand (\$1,300,000) Dollars.

3. A Conveyance Agreement between the Corporation and H-U was entered into on June 11, 1986. H-U has agreed to convey all the petroleum and natural gas and related interests it acquired, earned or held pursuant to the JVA together with the unexpended portion of certain funds H-U had agreed to expend in respect of the JVA. The Corporation will issue 16,000,000 Common Shares to H-U in return for the assets described above. The implementation of the Conveyance Agreement is conditional upon the Plan and the Arrangement Agreement becoming effective. For further information in respect of the transactions pursuant to the JVA and the Conveyance Agreement, see the Headings, "Conveyance of Joint Venture Assets" and "Material Contracts".

4. By an agreement dated April 17, 1985, which was amended in June, 1986, the Corporation is a party to a carbon dioxide sale, site storage and injection equipment supply agreement with a supplier of liquid carbon dioxide whereunder the Corporation contracted for the purchase of specified levels of carbon dioxide over a variable period of time.

Management Discussion of Operating Results and Current Outlook

First Half 1986

Revenues declined from \$4,046,000 to \$3,369,000 during the first half of 1986 in comparison with the first half of 1985 with second quarter revenue of \$1,683,000 down from \$2,143,000 for the same period in 1985, principally reflecting in both periods the impact of lower oil prices, notwithstanding the Corporation's increased oil and gas production. Increased production volumes in 1986 are reflected in slightly higher production and processing costs and greater depletion charges. Cash flow from operations declined by 39% from \$2,073,000 to \$1,261,000 for the first half and by 49% from \$1,166,000 to \$594,000 for the second quarter. Net earnings for the first half and second quarter were significantly lower than for 1985.

Capital expenditures for the first half were \$2,577,000 versus \$1,528,000 in the prior year, largely being incurred in the first quarter, as second quarter expenditures of \$417,000 were down from \$918,000 in 1985. Bank indebtedness rose by \$850,000 in the first six months of 1986 due to the increased level of capital expenditures. Further, the Corporation's bank line of credit was reduced from \$8.1 million to \$5.5 million during the second quarter, of which \$3.5 million was on a non-revolving basis with repayments commencing in June, 1986. A dividend of \$0.10 per Preferred Share was paid for the first quarter, or \$352,000, with no dividends on Preferred Shares being declared for the second quarter such that the Corporation was \$0.20 per share or \$705,000 in arrears on preferred dividends as at June 30, 1986.

While the Corporation was able to meet its production and expansion targets during 1985 and in the first half of 1986 and to control operating costs, this has been insufficient to contain the impact of declining oil prices.

Administrative and operating costs have been continuously reviewed and reduced during the year to date. These measures have put the Corporation in a position to maintain its land, reserves, and producing properties. However, during a period of low product prices, it is felt that the Corporation is unable to service existing preferred capital obligations and re-invest in asset growth without the infusion of additional equity.

1985 Compared to 1984

Corporate objectives achieved during 1985 were: increased proven oil and gas reserves, increased oil and gas production, continued success with the Retlaw enhanced recovery CO(2) project, and new areas of productive activity.

Net oil production averaged 323 barrels per day ("bopd") in 1985, up 66% from 195 bopd during 1984. Net gas production rose by 46% from 2.30 to 3.35 million cubic feet per day ("mmcf"). Operating costs increased 29% overall reflecting production growth although declining product prices held the revenue increase to 26%.

Production from Retlaw showed good results with the Unit producing at 550 bopd by year-end, nearly a four fold increase in the year. Unit partners voted in October, 1985 to expand the Unit to include eleven new wells in the southern extension. Higher discount sales were also achieved from the Retlaw area.

The two most successful areas of new activity were Little Bow and Craigmyle. In Little Bow, the Corporation drilled 4 oil wells to earn a 31% working interest in the entire Little Bow Mannville 'D' Pool which now has 7 oil wells and 2 injectors. At Craigmyle, the Corporation participated in the drilling of four oil wells, two of which should repay drilling and completion costs in full in less than one year. The Corporation has been aggressive in pursuing land sale and other opportunities in the Craigmyle/HandHills area.

The Corporation's exploration and development efforts were maintained during 1985. Twenty-five working interest wells were drilled with results of 13 oil, 6 gas and 6 dry and abandoned for a success rate of 76%.

These drilling results enabled the Corporation to replace production and to increase proven oil and gas reserves. Net proven oil reserves increased from 1,019 million standard tank barrels ("MSTB") to 1,122 MSTB (+10%) and net proven gas reserves increased from 15.9 billion cubic feet ("BCF") to 18.1 BCF (+14%). Proven plus probable oil reserves dropped by 9% from 1,930 MSTB to 1,746 MSTB due mainly to reserve reclassifications.

1984 Compared to 1983

Total revenues increased from \$5.1 million to \$7.2 million, including a gain of \$757,000 on the sale of fixed assets, while oil and gas revenues rose modestly to \$5.3 million. Expenses were about \$2 million lower than 1983 principally due to a large drop in depletion expense from discontinued U.S. operations which impacted depletion charges particularly in the 1981-83 period.

Cash flow from operations rose from \$1.4 million to \$3.0 million in 1984 against which preferred dividend requirements rose from \$1.2 million to \$2.1 million, reflecting the issuance in late 1983 of additional preferred capital. Net capital expenditures for the year of \$1.3 million were down from \$3.1 million in 1983. The company ended the year with a cash position of \$1.7 million in relation to a July, 1985 \$2.0 million debt maturity commitment.

1983 Compared to 1982

Total revenues fell sharply from \$7.7 million to \$5.1 million of which decrease \$715,000 was due to the non-occurrence of a prior year gain on sale of a major property interest and \$2.0 million reflected lower oil and gas revenues due largely to reduced oil and gas production. Expenses decreased from \$9.9 million to \$6.8 million reflecting the impact of lower production on production costs and depletion expense as well as lower interest expenses due to reduced indebtedness subsequent to additional equity being raised in 1982 and to lower interest rates during 1983.

Cash flow from operations dropped from \$1.9 million in 1982 to \$1.4 million in 1983 against which preferred dividend requirements rose from \$560,000 to \$1.2 million. Net capital expenditures in both years approached \$3.1 million. The acquisition of British Canadian Resources Ltd. in 1983 gave rise to the issue of an additional \$11.6 million in common and preferred equity out of which \$5.3 million financed the acquisition of oil and gas property interests with the balance financing cash acquired thereby and used to retire bank debt.

Current Outlook

As to the current outlook, the dramatic effect of sharply declining oil prices over the past six months has forced many junior companies within the industry to restructure in Western Canada. The Corporation is part of that process which will inevitably see future oil and gas opportunities shared by fewer companies. The Corporation has survived to date by increasing production at lower costs, and has shown the ability to enlarge its producing and exploratory base in the current environment.

If the Plan is implemented, the Corporation plans to add to this base in part through merger or acquisition opportunities. Criteria for such corporate developments include no or minimal debt and cash flow levels consistent with the realities of current product prices. Our objective in the near term is to enlarge the Corporation significantly

through corporate developments designed to maintain cash reserves and to create a larger self sustaining production and exploration company. For the longer term, the Corporation has the advantage of proven enhanced oil recovery technology, and should have the financial resources to accumulate valuable hydrocarbon properties at currently depressed prices.

Consolidated Capitalization

Consolidated Capitalization Table

<u>Designation of Security</u>	<u>Authorized</u>	<u>As at Dec. 31, 1985</u>	<u>As at June 30, 1986</u>	<u>After Proposed Share Issue</u>
Bank Loan (1)		\$ 3,100,000	\$ 4,550,000	---
Convertible Debenture		---	---	(3)
Preferred Shares, \$5.00 Par Value	6,000,000	---	---	---
a) Series A Shares	2,000,000	1,550,000 \$ 7,750,000	1,550,000 \$ 7,750,000	--- ---
b) Series B Shares	2,675,004	1,973,156 \$ 9,866,000	1,973,156 \$ 9,866,000	--- ---
Common Shares (2)	50,000,000	13,933,075	13,933,075	(see table below)
(5)		\$ 16,030,000	\$ 16,030,000	

The following table sets forth the number of Common Shares which will be outstanding after giving effect to the issuance of Common Shares pursuant to the Share Rights Offering, the Conveyance of Joint Venture Assets (see the Heading, "Material Acquisitions and Dispositions") and the conversion of the Preferred Shares into Common Shares (the "All Shares Option") or cash and Common Shares (the "Cash Plus Shares Option") pursuant to the proposed Plan.

	<u>Minimum Rights Subscription</u>		<u>Maximum Rights Subscription</u>	
	<u>Cash Plus</u>	<u>All Shares</u>	<u>Cash Plus</u>	<u>All Shares</u>
	<u>Shares Option</u>	<u>Option</u>	<u>Shares Option</u>	<u>Option</u>
Common Shares (4)	84,026,000	119,257,000	100,077,000	135,309,000
(5)	\$ 28,492,000	\$ 35,538,000	\$ 32,305,000	\$ 39,351,000

Notes:

- (1) The bank loan represents an operating line of credit which bears interest at 0.25% to 1% above its banker's prime lending rate. The Corporation's total line of credit was \$8,100,000 as at

December 31, 1985. On April 30, 1986, the Corporation concluded a restructuring of its line of credit with its banker. The line of credit was reduced to \$5,500,000 with additional security provided in the form of a first floating charge debenture. Monthly repayments of \$50,000 have commenced in June, 1986 on \$3,500,000 of the Corporation's indebtedness.

(2) Presently:

- (a) there are 700,000 Common Shares reserved for issuance upon the exercise of Common Share purchase options to the end of 1988 (see "Share Option Plan") of which 604,000 purchase options have been granted;
 - (b) there are 14,092,624 Common Shares reserved for the 3,523,156 First Preferred Series A and B shares convertible at any time before December 31, 1986 on the basis of four Common Shares for each Series A and Series B Share;
- (3) A maximum of Three Million (\$3,000,000) Dollars in the form of a debenture may be issued to HR pursuant to the Plan. Should the Plan become effective, 600,000 New Common Shares will be reserved for the conversion of the Debenture. This is equivalent to 12,000,000 Common Shares (see the Heading, "Convertible Debenture").
- (4) Prior to the one for twenty share consolidation into New Common Shares.
- (5) As at December 31, 1985 and June 30, 1986 the common equity values represent the Common Share Capital. On a proforma basis the Common Share Capital Account was reduced by \$11,908,000, which is the deficit amount as at June 30, 1986 assuming that the proposed Reduction of Common Share Capital (see the Heading "Reduction of Common Share Capital") is approved by the shareholders at the Annual General Meeting of the shareholders to be held on September 30, 1986.

Share Capital

Common Shares

The Corporation is presently authorized to issue 50,000,000 common shares of no par value ("Common Shares"). Holders of Common Shares of the Corporation are entitled to dividends as and when declared by the directors, subject to the preferential rights as to dividends of the holders of the Preferred Shares. Holders of Common Shares are entitled to one vote per share on a poll at any meeting of the Corporation other than special meetings for shareholders of a particular class or series other than the class of Common Shares. In the event of the liquidation, dissolution or winding-up of the Corporation, after payment of indebtedness to creditors and subject to the preferential rights of the holders of the Preferred Shares, the holders of Common

Shares are entitled to share pro rata in the remaining assets of the Corporation.

Preferred Shares

The Corporation is currently authorized to issue 6,000,000 first convertible preferred shares (the "Preferred Shares") with a par value of \$5.00 each designated as follows:

- (i) 2,000,000 12% Series A cumulative, redeemable convertible First Preferred Shares, with a par value of \$5.00 each (the "Series "A" Shares");
- (ii) 2,675,004 12% Series B cumulative, redeemable convertible First Preferred Shares, with a par value of \$5.00 each (the Series "B" Shares).

The Preferred Shares as a class may, at any time and from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution duly passed by the board of directors of the Corporation (the "Series Resolution"). Subject to the provisions of any applicable law, the board of directors of the Corporation may, in the Series Resolution relating to any series of Preferred Shares, fix the designation, rights, restrictions, conditions and limitations attaching to the Preferred Shares of such series.

The Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority on payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation amongst shareholders for the purpose of winding up its affairs.

Subject to the provisions of the Series Resolution, the Preferred Shares are entitled to preference over the Common Shares and over any other shares ranking junior to the Preferred Shares with respect to payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation amongst its shareholders for the purpose of winding-up its affairs. The holders of currently outstanding Preferred Shares, Series A and Series B, are entitled to receive notice of, and attend all meetings of shareholders of the Corporation, other than separate meetings of the holders of another class of shares, and at such meetings, are entitled to one vote for each Preferred Share held.

Series A Shares and Series B Shares are convertible into four Common Shares for each such Series A or Series B Share so converted at a price of \$1.25 per Common Share until December 31, 1986.

Purchase for Cancellation

The Corporation will be permitted to purchase all or part of the Series B Shares through the facilities of a stock exchange on which such shares are listed or by invitations for tenders to all holders, at a price per share not exceeding \$5.50 if such purchase is made on or prior to December 31, 1987 and thereafter at a price per share not exceeding the then current redemption price, plus, in all cases, accrued and unpaid dividends thereon and costs of purchase.

Purchase Obligation

Subject to the restrictions set forth below, the Corporation, in each calendar quarter commencing with the calendar quarter commencing January 1, 1987 up to and including the calendar quarter commencing October 1, 1991 is intended to purchase 3%, and in each calendar quarter thereafter 5%, of the total number of Preferred Shares, Series A and Series B outstanding at the close of business on December 31, 1986, if and to the extent such shares are available for purchase at prices not exceeding the then current redemption price plus accrued and unpaid dividends thereon and costs of purchase, and such obligation will carry forward to succeeding calendar quarters in the same calendar year. If, after reasonable efforts, the Corporation is unable to purchase an aggregate of 12% (and after 1991, 20%) of such shares in the four calendar quarters of any calendar year, the Corporation's obligation to purchase shares with respect to such calendar year will be extinguished.

In addition to any approval or consent required by the Business Corporations Act (Alberta), the class provisions attaching to the Preferred Shares may be amended with the approval of the holders thereof given in writing by the holders of at least two-thirds of the Preferred Shares outstanding or by at least two-thirds of the votes cast at a meeting or adjourned meeting of the holders of those shares duly called for the purpose and at which a quorum is present.

Dividend Policy

No dividends have been paid the Corporation on the Common Shares since its incorporation. Except for 1986 the Corporation has regularly paid 12% dividends on the Series A Shares and Series B Shares and, while they existed, on its First Preferred Shares Series C. The Corporation paid a first quarter 1986 dividend of \$0.10 per share rather than the \$0.15 per share rate and in light of the impact of lower oil prices and certain terms of its bank line of credit, the directors have decided to not declare a dividend for the second and third quarters of 1986. At the present time, the Corporation intends to use all available funds to finance the operations of its business and is not anticipating that dividends will be paid in the foreseeable future with respect to its Common Shares. Dividends may be declared from time to time with respect to the Preferred Shares although no further dividends are expected to be declared during a period of low oil and gas prices. Any dividends outstanding on the Preferred Shares at the time the Plan becomes effective shall not be paid.

Market Price and Trading Volume

The following tables summarize the high and low sales prices and trading volumes of the Common Shares and Series B Shares on The Toronto Stock Exchange for the periods indicated:

Common Shares

	<u>Price Range (\$)</u>		<u>Volume</u>
	<u>High</u>	<u>Low</u>	<u>(Shares)</u>
<u>1984</u> : 3rd quarter	0.72	0.50	801,334
4th Quarter	0.70	0.43	368,778
<u>1985</u> : 1st Quarter	0.60	0.41	466,683
2nd Quarter	0.88	0.40	723,187
3rd Quarter	0.72	0.62	42,470
4th Quarter	0.77	0.57	1,557,965
<u>1986</u> : 1st Quarter	0.66	0.30	280,592
April	0.37	0.31	26,385
May	0.35	0.28	48,771
June	0.30	0.15	631,280
July	0.24	0.15	126,905
August	0.22	0.18	50,200

Series B Shares

	<u>Price Range (\$)</u>		<u>Volume</u>
	<u>High</u>	<u>Low</u>	<u>(Shares)</u>
<u>1984</u> : 3rd quarter	4.50	3.60	122,405
4th Quarter	4.50	4.00	94,605
<u>1985</u> : 1st Quarter	4.25	3.85	196,392
2nd Quarter	4.80	3.90	277,525
3rd Quarter	4.70	4.25	138,276
4th Quarter	4.80	4.25	442,546
<u>1986</u> : 1st Quarter	4.50	1.90	264,753
April	2.85	1.90	121,560
May	2.80	2.50	28,100
June	2.65	1.75	49,587
July	2.57	1.80	75,462
August	2.35	2.00	21,050

The closing prices for the Common Shares and Series B Shares on June 25, 1986, the day prior to public announcement of the proposed Plan were \$0.16 and \$1.87 per share respectively. On September 10, 1986 the closing prices of the Common Shares and the Series B Shares were \$0.205 and \$2.30 per share respectively.

Management

Directors and Officers

The names, municipalities of residence, positions and principal occupations for the previous five years of the officers and directors of the Corporation are set forth below:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
John MacMillan Stirling Lecky Calgary, Alberta	Chairman and President	Chairman and President of The Resource Service Group Ltd. for the past five years.
Stephen Michael Krasnow Calgary, Alberta	Director	Vice-President and Treasurer of The Resource Service Group Ltd. for the past five years
John Keith Farries Calgary, Alberta	Director	President of Farries Engineering (1977) Ltd. for the past five years
Harold Madison Wright Vancouver, British Columbia	Director	Chairman of the Board of Wright Engineers Limited for the past five years
Dr. Phillip M. Sigmund Calgary, Alberta	Director	Associate Professor, Dept. of Chemical and Petroleum Engineering, University of Calgary for the past five years
John Chan Wong Calgary, Alberta	Chief Financial Officer, Secretary	Officer of the Corpora- tion; prior to October 1982 a Supervising Senior Accountant with Peat, Marwick, Mitchell & Co. Chartered Accountants.

Management Agreement

Pursuant to a Management Agreement made as of January 1, 1984 between the Corporation and The Resource Service Group Ltd. ("RSG"), RSG provides certain management services to the Corporation for an annual consideration of One Hundred Thousand (\$100,000) Dollars payable quarterly on the first day of January, April, July and October of each year. RSG is controlled by John M.S. Lecky. With effect from April 1, 1986, RSG has waived receipt of 25% of the management fee to which it is otherwise entitled for the balance of 1986.

Remuneration of Directors and Officers and Senior Employees

The following table shows the aggregate remuneration paid by the Corporation to its senior officers during the fiscal year ended December 31, 1985. No remuneration was paid to directors in their capacity as directors. The following table excludes any amounts paid to RSG under the Management Agreement.

	<u>Nature of Remuneration</u>		
	<u>From Office Employer and Employee Contributions</u>	<u>Cost of Pension Benefits</u>	<u>Other</u>
One Senior Officer and Four Senior Employees	\$326,000	Nil	Nil

With effect from April 1, 1986 remuneration to officers and senior employees was reduced by 15% to 25% per annum.

Indebtedness of Directors and Senior Officers

During the financial year ending December 31, 1985 and subsequent thereto to the date hereof no director or officer of the Corporation was indebted to the Corporation.

Principal Holder of Securities

To the best knowledge of the directors of the Corporation, there are no shareholders of record or known by the Corporation to own beneficially, directly or indirectly, more than 10% of the issued and outstanding shares of the Corporation as at the Record Date of September 5, 1986 except RSG which owns 4,336,532 Common Shares or 31.1% of the shares outstanding in that class. RSG also holds 1,200,000 Series A Shares representing 77.4% of the outstanding Series A Shares and 18,000 Series B Shares representing .9% of the outstanding Series B Shares, or collectively 1,218,000 Preferred Shares representing 34.6% of the total outstanding Preferred Shares. RSG is controlled by Mr. John M.S. Lecky of Calgary, Alberta.

Other than as noted above, in aggregate the number of Common, and Preferred Shares of the Corporation owned directly or indirectly by the present directors and senior officers of the Corporation as a group as of the Record Date is as follows:

<u>Designation</u>	<u>Number of Shares Owned</u>	<u>Percentage of Outstanding Shares</u>
Common Shares	25,151	0.2%
Series B Shares	12,997	0.4%

Share Option Plan

The following table sets forth the share purchase options held by employees and a director of the Corporation outstanding to purchase the Corporation's Common Shares as at September 5, 1986:

<u>Number of Shares</u>	<u>Date of Grant</u>	<u>Date of Expiry</u>	<u>Exercise Price</u>	<u>Market Value on Date of Grant</u>
327,000	Nov. 13, 1984	Nov. 13, 1987	\$0.55	\$0.55
70,000	May 11, 1985	May 11, 1988	\$0.55	\$0.60
207,000	Feb. 24, 1986	Feb. 24, 1989	\$0.60	\$0.50

Interest of Management and Others in Material Transactions

None of the directors or officers of the Corporation or any proposed nominee for election as a director of the Corporation or any shareholder of record or known to the Corporation to own beneficially, directly or indirectly, more than 10% of the issued and outstanding Common Shares of the Corporation, or any associate or affiliate of the foregoing, has any material interest, direct or indirect, in any transaction within the three years prior to the date hereof or in any proposed transaction which has materially affected or will materially affect the Corporation other than as disclosed under "Management Contracts" and as follows.

At the time of the amalgamation of St. John's Petroleum Ltd. and 573828 Saskatchewan Ltd. (as described under the Heading, "Material Acquisitions and Dispositions"), 46.89% of the St. John's common shares were owned by Edmalec Investments Ltd., a corporation wholly owned by Mr. John M.S. Lecky and members of his family. See the Heading, "Principal Holder of Securities" elsewhere in this Information Circular.

Industry Conditions

The oil and natural gas industry involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that additional oil or natural gas in commercial quantities will be discovered or produced by the Corporation.

The marketability of oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond the control of the Corporation. These factors include market demand fluctuations, the world price of oil, the supply and demand for natural gas in the United States, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production, the import and export of oil and natural gas, and environmental protection. The effect of these factors cannot accurately be predicted.

Hazards such as unusual or unexpected geological formations, pressures or other conditions are encountered in drilling and operating wells. The Corporation will have the benefit of insurance maintained in accordance with standard industry practice. The Corporation may become liable for damages arising from pollution, blowouts or other hazards against which it cannot insure.

The oil and natural gas industry is intensely competitive and the Corporation competes with a substantial number of other companies which have greater resources. Many of such companies not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a worldwide basis. There is also competition between the oil industry and other industries with respect to the supply of energy and fuel to industrial, commercial and individual customers.

Government Regulations

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Agreements have been made between the Government of Canada and the Governments of each of the provinces of Alberta, British Columbia, Saskatchewan and Nova Scotia (the "Pricing Agreements") which govern the pricing of oil and natural gas and the sharing of revenues from their resources. On March 28, 1985 the Governments of Canada, Alberta, Saskatchewan and British Columbia announced a new agreement (the "Western Accord") with respect to pricing and taxation of oil and natural gas which substantially alters the Pricing Agreements. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. All current legislation, the Pricing Agreements and the Western Accord are a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Pricing - Crude Oil

The Western Accord deregulated the price of all oil effective June 1, 1985. The principal effect of such deregulation was to terminate the tiered pricing regime implemented under the Pricing Agreements. Such regime provided that oil discovered after December 31, 1973 and which qualified as new oil for provincial royalty purposes (plus oil in certain other categories) would receive the New Oil Reference Price, which price was determined in accordance with a formula contained in the pricing Agreements. This price was approximately \$40.41 per barrel as at May 1, 1985. The price of oil discovered prior to January 1, 1974 was fixed at \$29.75 per barrel. Since June 1, 1985 the price of oil has been subject to negotiation between buyers and sellers. Oil exporters are also entitled to enter into export contracts without obtaining the prior approval of the National Energy Board ("NEB") provided that terms of such contracts do not exceed one year in the case of light crude and two years in the case of heavy crude.

Pricing - Natural Gas

The Pricing Agreements provided that the price received by producers of natural gas produced in Alberta and consumed in domestic markets outside of Alberta is fixed at the Alberta border and is subject to deduction of processing costs and costs associated with transportation from the point of production to the Alberta border. The October 31, 1985 Agreement among the Governments of Canada, Alberta, British Columbia and Saskatchewan on Natural Gas Markets and Prices (the "Natural Gas Markets and Prices Agreement") provided that this price will remain at \$2.94/Mcf until October 31, 1986. During the year ending November 1, 1986, prices may be negotiated on a commercial basis for contracts that expire or which producers agree to renegotiate within that period and for certain new contracts. Prices for gas sold under long term sales contracts will be required to be renegotiated by November 1, 1986, and failing agreement will be settled by arbitration. Effective November 1, 1986, the price of natural gas in inter-provincial trade will be determined by negotiation between buyers and sellers.

The price of natural gas exported from Canada is regulated by the NEB and the Government of Canada. Pursuant to the Natural Gas Markets and Prices Agreement, the Government of Canada has agreed to make significant modifications to its previous policy with respect to prices of natural gas exports. Under the new policy, exporters are free to negotiate prices with purchasers, although the export price shall not be less than the price charged to Canadians for similar types of service in the area or zone adjacent to the export point. Export contracts must also meet certain other criteria prescribed by the Government of Canada.

Taxes

In addition to the income tax laws which are applicable to all residents of Canada, the petroleum and natural gas industry is subject to a number of specific federal taxation measures. The Government of Canada levies a Petroleum and Gas Revenue Tax ("PGRT") on net operating revenue from a working interest in oil or natural gas property, on net

revenue from processing bitumen to a crude oil stage, and on revenue received from certain royalty interests. In recent years, PGRT was levied at a rate of 16%, but was effectively reduced to 12% in most instances because of a resource allowance tax deduction. The Western Accord provides that the PGRT will not apply to revenue from wells drilled on or after April 1, 1985 and will be phased out for other production over a three year period beginning January 1, 1986. On September 8, 1986, the Government of Canada announced that the PGRT will be eliminated effective October 1, 1986.

The Western Accord also eliminates a number of other energy taxes.

Petroleum Incentives Program

The Government of Canada, through the Petroleum Incentives Program ("PIP") and the Government of Alberta, in respect of lands in Alberta, through the Alberta Petroleum Incentives Program ("APIP") have provided direct cash incentives to qualified applicants in respect of eligible drilling and related expenditures. As part of the implementation of the Western Accord, PIP terminated on March 31, 1986 except for expenses incurred in drilling frontier wells required to satisfy existing commitments related to Exploration Agreements on Canada Lands. Such frontier wells will continue to qualify for PIP incentives until no later than December 31, 1987. The Government of Alberta terminated APIP on March 31, 1986, except for certain eligible activities which have been "grandfathered" to December 31, 1986.

Royalties and Incentives

On June 24, 1985, the Government of Alberta announced royalty rate reductions, holidays and enhanced royalty tax credits for Crown lands in the Province of Alberta. The credits and holidays were established for the purpose of assisting small producers and encouraging exploration for new oil pools and deeper and more costly gas pools.

On April 1, 1986, the Government of Alberta announced that the royalty tax credit program will be further enhanced by increasing the royalty credit level from 75% to 95% to a maximum of \$3,000,000 annually until December 31, 1986. Also, under the Exploratory Drilling Assistance Program, companies will be permitted to reduce royalties by a credit of 50% of the cost of drilling exploration wells on Crown lands in 1986 against net royalties payable to the Crown on or after April 1, 1987. The program extends to December 31, 1986, or to an aggregate royalty credit amount of \$300 million, whichever comes first.

On June 4, 1986, the Government of Alberta announced that cash grants or royalty credits are available to persons drilling development or injection wells on lands owned by the Government of Alberta which have commenced on or before September 30, 1986. The cash grants or royalty credits under this Development Drilling Assistance Program will equal approximately 40% of the cost of drilling and completion, and are subject to limits of \$200,000 per well and \$100 million for the industry. A \$50 million Well Servicing Assistance Program will reimburse 50%

of the contract labour costs for maintenance and service of wells, pipelines and batteries undertaken before September 30, 1986. A \$50 million Geophysical Assistance Program will reimburse up to 35% of field expenses of geophysicists undertaking seismic work on or near lands owned by the Government of Alberta prior to December 31, 1986.

In July, 1985 the Government of Saskatchewan announced price incentives to encourage gas self-sufficiency in the Province of Saskatchewan. Government of Saskatchewan grants royalty holidays for wells drilled prior to December 31, 1986.

On May 2, 1986, the Government of Saskatchewan announced temporary measures aimed at maintaining jobs and production in the oil sector. For a three month period beginning May 1, 1986, royalty and freehold production tax rates are reduced by 15% for heavy oil, 10% for non-heavy old oil and 5% for non-heavy new oil, with a minimum floor of one per cent. For the same three month period, operators are permitted to deduct 50% of eligible repair and maintenance costs against royalties and freehold production taxes payable to a maximum of \$6 million for the three month period. Temporary initiatives were also announced for enhanced oil recovery projects, reducing before payout and after payout royalties and taxes and permitting more favourable terms for the purchase of gas.

On August 1, 1985 the Government of British Columbia announced royalty holidays for oil wells drilled in that province between June 30, 1985 and June 30, 1989. Exploratory wells qualify for a three year exemption, while other types of oil wells are entitled to a two year royalty-free period.

On October 30, 1985, the Government of Canada announced that it proposes to introduce legislation establishing royalty credits and tax credits for exploration expenses for wells drilled in Canada. Effective December 1, 1985 there will be a 25% investment royalty credit for eligible frontier exploration well costs of up to \$5,000,000 per well for new exploration wells located on Canada Lands, and a 25% exploration tax credit for eligible exploration expenses in excess of \$5,000,000 per well for wells drilled anywhere in Canada. Companies may apply for a refund of up to 40% of that portion of the exploration tax credit not otherwise utilized in the year the credit is earned. The exploration tax credit is not available for expenses eligible for PIP or APIP. In addition, the Government of Canada has proposed to replace the Canada Oil and Gas Act with a new Act which would significantly alter the existing regulations governing oil and gas exploration, development and production on Canada Lands.

Material Contracts

Except for those contracts described in "Management Agreement" above, those entered into in the normal and ordinary course of business, and as set out below, there are no material contracts of the Corporation entered into within the last two years.

1. The Corporation is a party to a Conveyance and Joint Venture Agreement ("JVA") dated July 24, 1985 with Heli-Union B.E.A.S. Limited ("H-U"). In return for the payment of approximately \$1,300,000 in Canadian currency the Corporation conveyed certain interests in petroleum and natural gas properties and related interests to H-U. The JVA also makes provision for a program of joint acquisition of further petroleum and natural gas properties (the "Joint Venture"). Generally, H-U, by contributing 90% of the cost of acquisitions, can acquire an undivided 70% interest therein. H-U committed itself to contribute a maximum of \$3,724,000 (the "Commitment Amount") to the Joint Venture. The Corporation is the manager by virtue of the JVA. This program was to terminate by the earlier of June 30, 1986 or the date the Commitment Amount had been expended or committed to be expended.

2. By a Conveyance Agreement dated June 11, 1986 H-U agreed to convey, effective upon the Effective Date, all the petroleum and natural gas interests it acquired, earned or held pursuant to the JVA together with the unexpended portion of the Commitment Amount. In consideration for this conveyance the Corporation has agreed to issue to H-U sixteen million Common Shares. The implementation of the Conveyance Agreement is conditional upon the Plan and the Arrangement Agreement becoming effective on the Effective Date (see the Heading, "Conditions to Implementation of the Plan" elsewhere in this Information Circular). If the Plan and the Arrangement Agreement do become effective, the provisions of the Conveyance Agreement become effective simultaneously.

3. During 1984 the Corporation disposed of its carbon dioxide processing facility. Subsequent to this sale, the Corporation entered into a processing agreement with the owners of the facility whereby the Corporation has agreed to pay a minimum processing fee in return for the utilization of the facility to process carbon dioxide recovered from waste gas. The Corporation has provided the owners of the facility with security for these obligations by means of collateral debentures aggregating Two Million (\$2,000,000) Dollars and an assignment of its related processing revenue.

4. By an agreement dated April 17, 1985, which was amended in June, 1986, the Corporation is a party to a carbon dioxide sale, site storage and injection equipment supply agreement with a supplier of liquid carbon dioxide whereunder the Corporation contracted for the purchase of specified levels of carbon dioxide at a fixed price subject to a formula adjustment over a variable period of time. The June, 1986 amendment defers the Corporation's obligation to the extent existing oil prices are below stipulated levels.

Copies of the agreements described above may be inspected at the principal office of the Corporation, 1400, 144 - 4th Avenue S.W., Calgary, Alberta, during normal business hours with the exception of the April 17, 1985 agreement which cannot be released for reasons of confidentiality.

Availability of Rights and Remedies

The issuance of the Common Shares contemplated by the Plan and the Arrangement Agreement, including the Share Rights Offering, is being made pursuant to certain exemptions or rulings and orders granting exemptions under the securities laws of Canada and the Provinces of Canada. As a consequence of these exemptions or rulings and orders granting exemptions, which relieve the Corporation from the obligation of offering the Common Shares by way of prospectus, certain protections, rights and remedies, including statutory rights of rescission or damages, which would otherwise be available if the offering had been made by way of prospectus, will not be available to the persons to whom the Common Shares are issued.

Legal Proceedings

The Corporation is a defendant in a legal action instituted in the Alberta Court of Queen's Bench by a Canadian chartered bank as assignee of a certain drilling company. The amount claimed is approximately One Million Three Hundred Thousand (\$1,300,000) Dollars (U.S. \$913,000) plus interest and costs and the Corporation is vigorously contesting the claim. The Corporation's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action.

Auditors, Transfer Agent and Registrar

The auditors of the Corporation are Touche Ross & Co., Chartered Accountants, 3500, 700 Second Street S.W., Calgary, Alberta.

The registrar and transfer agent for the the Corporation shares is National Trust Company at its offices in Calgary, Toronto, Montreal and Vancouver.

NAA30.01

CERTIFICATE

"The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made."

(signed)

John M. S. Lecky - President

(signed)

John Chan Wong - Chief Financial Officer

APPENDIX "I"

THIS ARRANGEMENT AGREEMENT made and entered into this 11th day of June, 1986.

BETWEEN:

WESTGROWTH PETROLEUMS LTD., a body corporate with registered office in the City of Calgary, in the Province of Alberta (hereinafter called "W")

OF THE FIRST PART

- and -

HELICOPTER RENTALS LIMITED, a body corporate with registered office in the City of Hamilton, Bermuda (hereinafter called "HR")

OF THE SECOND PART

WHEREAS W is a body corporate incorporated under the Business Corporations Act (Alberta) with an authorized capital of 50,000,000 Common Shares and 6,000,000 First Preferred Shares, of which 13,933,075 Common Shares, 1,550,000 First Preferred Shares, Series A and 1,973,156 First Preferred Shares, Series B have been issued as fully paid and non-assessable and are presently outstanding;

AND WHEREAS HR is desirous of acquiring Common Shares of W on the terms and conditions hereinafter set forth;

AND WHEREAS the parties desire to enter into a plan of arrangement involving W and its shareholders whereby the outstanding First Preferred Shares of W will be exchanged by the holders thereof for Common Shares of W and for cash, and whereby additional Common Shares of W shall be issued to HR;

NOW THEREFORE, to enable the parties to carry out their intended objectives, the parties hereto mutually covenant and agree to and with each other as follows:

ARTICLE I
DEFINITIONS

In this Agreement and the recitals thereto, unless the context otherwise requires, the following words and phrases shall have the meanings hereinafter set forth:

- (a) "Arrangement" means the plan of arrangement attached hereto as Schedule "A" and any amendments or variations thereto made in accordance herewith;
- (b) "Bennett" means Bennett Jones, Calgary, Alberta, or such other counsel as may be appointed by HR;
- (c) "Court" means the Court of Queen's Bench of Alberta;
- (d) "Final Order" means the order of the Court required pursuant to the provisions of Section 186 of the Act approving the Arrangement;
- (e) "Financial Statements" means the audited financial statements of W as at December 31, 1985 and the unaudited financial statements of W as at March 31, 1986, including in both cases any notes thereto;
- (f) "Interim Order" means the order of the Court providing for the calling of the Special Meeting to approve the Arrangement;
- (g) "Macleod" means Macleod Dixon, Calgary, Alberta, or such other counsel as may be appointed by W;
- (h) "Special Meeting" means the special general meeting of W shareholders to be convened in accordance with the Interim Order to consider and, if thought fit, to approve the Arrangement and the transactions contemplated therein;

- (i) "W Debenture" means the debenture to be issued by W in favour of HR, Bristow Helicopters (Eastern) Limited, or such other entity as is designated on or before the Effective Date by HR and is acceptable to W, substantially in the form annexed hereto as Schedule "B"; and
- (j) "W Rights" means the share purchase rights of W to be granted to holders of W Common Shares on the basis of two rights for each W Common Share held and to the holders of W Preference Shares on the basis of eight W Rights for each W Preference Share held on the record date for such offering, each such right entitling the holder thereof to purchase one W Common Share at a price of \$0.25 on or before the expiry date of such W Rights as determined by the W Board of Directors;

and words and phrases used herein that are defined in the Act or the Arrangement shall have the meaning herein as in the Act or the Arrangement unless the context otherwise requires.

ARTICLE II
COVENANTS

2.01 Covenants of W with HR

W covenants and agrees with HR that it will:

- (a) take all actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) issue on the Effective Date the W Debenture;
- (c) issue the W Rights on the Effective Date;
- (d) until the Effective Date, not merge into or with, consolidate with, or sell all or any material part of its assets to any other corporation or person or perform any act or enter into

any transaction which might interfere or be inconsistent with the consummation of the transactions hereby contemplated;

- (e) until the Effective Date not alter or amend its Articles of Continuance or By-Laws as the same exist at the date of this Agreement;
- (f) until the Effective Date, use its best efforts to obtain all necessary consents, assignments, waivers, amendments to or terminations of any instruments and take such other measures as may be appropriate to fulfill its obligations under and to carry out the transactions contemplated by this Agreement;
- (g) apply for the Interim Order prior to the giving of notice of the Special Meeting;
- (h) send to its shareholders a notice of meeting, management proxy circular and proxy statement (the "Information Circular") prepared in accordance with the Interim Order and applicable law;
- (i) convene the Special Meeting and solicit proxies to be voted at such meeting in favour of the Arrangement;
- (j) use its best efforts to cause each of the conditions precedent set forth in Sections 4.01 and 4.03 to be complied with;
- (k) until the Effective Date, not enter into any agreement other than as contemplated herein or in the ordinary course of business unless HR's prior written consent to such agreement is received by W;
- (l) use all reasonable efforts to induce the exercise of the W Rights;

- (m) on the Effective Date, irrevocably direct its transfer agent to issue to HR the W Common Shares referred to in paragraph 2.02(a) upon expiration of the W Rights;
- (n) forthwith after the expiration of the W Rights, issue to HR the common shares subscribed for by HR pursuant to paragraph 2.02(a);
- (o) until the Effective Date, not make any distribution by way of dividend, return of capital or otherwise to or for the benefit of its shareholders except for the payment of such quarterly dividends as shall be payable in the ordinary course of business to shareholders of W and which shall not be prohibited by the Act; and
- (p) carry out and perform its obligations hereunder.

2.02 Covenants of HR with W

HR covenants and agrees with W that it will:

- (a) subscribe for on the Effective Date at a price of \$0.25 per W Common Share that number of W Common Shares equal to the number of W Common Shares issuable pursuant to W Rights which have not been exercised by the holders thereof, provided that HR shall not be required to subscribe for more than 40,000,000 W Common Shares, such W Common Shares to be issued to HR upon expiration of the W Rights;
- (b) enter into or cause to be entered into by Bristow Helicopters (Eastern) Limited, or such other entity as is designated on or before the Effective Date by HR and is acceptable to W, the W Debenture on the Effective Date;
- (c) use its best efforts to cause each of the conditions precedent set forth in Sections 4.01 and 4.02 to be complied with on or

before the Effective Date and take all actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement, including, without limitation, taking all steps necessary to procure Investment Canada approval as soon as possible;

- (d) until the earlier of the termination of this Agreement and the Effective Date, keep on deposit with the Royal Bank of Scotland or such other financial institution acceptable to W not less than \$10,000,000 free and clear of all liens, pledges, hypothecations or other encumbrances, and that HR will instruct such financial institution to advance such funds to Bennett on or before the Effective Date for the purpose of complying with HR's covenants herein contained;
- (e) on the Effective Date, advance to W the sum of \$10,000,000 in respect of its subscription for common shares referred to in paragraph (a) above;
- (f) within 21 days after the execution of this Agreement, provide to W a letter from the financial institution referred to in paragraph 2.02(d) confirming that the funds referred to in that paragraph are held on deposit with such institution in the manner referred to in that paragraph and further confirming that the instructions referred to therein have been received by such institution; and
- (g) carry out and perform its obligations hereunder.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.01 Representations by W

W represents and warrants:

- (a) that it is a body corporate under the Act and is registered to do business and is in good standing under the Act and in all the provinces of Canada where it carries on business;
- (b) that the Financial Statements as at the date thereof fairly present the financial position of W in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year unless otherwise noted;
- (c) that the outstanding share capital of W consists of 13,933,075 Common Shares, 1,550,000 First Preferred Shares, Series A and 1,973,156 First Preferred Shares, Series B;
- (d) that W is under no obligation, contractual or otherwise, to issue any further W Common or W Preferred Shares other than the issue of shares upon the exercise of options to purchase 604,000 W Common Shares heretofore granted to employees of W and upon the conversion of W Preferred Shares into W Common Shares;
- (e) that W is not subject to any agreement, covenant, restriction or regulation which would prevent W entering into and performing its obligations under the terms of this Agreement, provided that a Final Order of a Judge of the Court is obtained pursuant to Section 186 of the Act;
- (f) that the interests set out in Schedule "C" are owned by W in the manner set forth in Schedule "C" attached hereto and such ownership will not be adversely affected by the transactions contemplated herein; and
- (g) that this Agreement has been duly authorized, executed and delivered by W and constitutes a legal, valid and binding obligation of W enforceable by HR in accordance with its terms.

3.02 Representations by HR

HR represents and warrants:

- (a) that it is a body corporate incorporated under the laws of Bermuda and is in good standing under such laws; and
- (b) that this agreement has been duly authorized, executed and delivered by HR and constitutes a legal, valid and binding obligation of HR enforceable by W in accordance with its terms.

ARTICLE IV
CONDITIONS PRECEDENT

4.01 Mutual Conditions Precedent

The respective obligations of the parties hereto to consummate the transactions contemplated by this Agreement shall be subject to fulfillment, on or before the Effective Date, of the following conditions:

- (a) the Arrangement shall have been approved at the Special Meeting in accordance with the provisions of the Act, the Interim Order and any applicable regulatory requirements;
- (b) the Final Order shall have been obtained and certificate of amendment shall have been issued by the Registrar pursuant to Section 186 of the Act;
- (c) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation, the Arrangement;
- (d) all regulatory and similar approvals which are, in the reasonable opinion of counsel for each of the parties hereto,

necessary in respect of the transactions contemplated hereby, including, in particular, the Arrangement shall have been obtained;

- (e) the approval of Investment Canada of the acquisition by HR of the W Common Shares shall have been obtained;
- (f) the W Common Shares to be issued pursuant to this Agreement and the Arrangement shall have been conditionally approved for listing on The Toronto Stock Exchange; and
- (g) no material adverse change shall have occurred in the business and affairs of W from the date of this Agreement to the Effective Date excepting such changes as may have been caused by a change in the price generally obtainable for Western Canadian oil and gas production.

4.02 Conditions to Obligations of W

The obligation of W to consummate the transactions contemplated hereby and, in particular, the Arrangement, is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by it without prejudice to its right to rely on any other or others of them:

- (a) each of the acts and undertakings of HR to be performed on or before the Effective Date pursuant to the terms of this Agreement, including, without limitation, the provision of the letter of credit referred to in Subsection 2.02(d), shall have been duly performed;
- (b) HR shall have furnished W with a favourable opinion of Bennett, dated the Effective Date, satisfactory in form and substance in all material respects to W, to the effect that:

- (i) HR is duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has the corporate power and authority to execute, deliver and perform its obligations under this Agreement;
- (ii) HR has taken all necessary corporate action to authorize the execution and delivery of this Agreement and the performance of all its obligations hereunder;
- (iii) this Agreement has been duly executed and delivered by HR and constitutes its respective legal, valid and binding obligation enforceable by W in accordance with its terms subject to bankruptcy and similar laws affecting creditors generally and to equitable remedies being in the discretion of a court;
- (iv) the execution, delivery and performance of this Agreement do not, and the Arrangement will not:
 - (A) result in a breach of or violate any terms or provisions of the charter documents of HR; or
 - (B) violate any provisions of law or administrative regulations of Bermuda or Canada or any jurisdiction inside Canada in which HR carries on business or, in each case known to Bennett, any judicial or administrative order, award, judgment or decree, to which HR is a party or by which it is bound;
- (v) the approval of Investment Canada of the acquisition by HR of the W Common Shares has been obtained; and

in giving such opinion, Bennett may rely, in respect of matters governed by the laws of any jurisdiction other than the Province of Alberta or the laws of Canada applicable therein, upon the opinion of local counsel in such

jurisdiction; provided that, in the case of any such opinion, Bennett is of the opinion that the opinion of such counsel is one upon which Bennett and W may properly rely, and, as to matters of fact, upon certificates of an officer of HR or other appropriate person; and

- (c) except as affected by the transactions contemplated by this Agreement, the representations and warranties of HR contained in Article III shall be true in all material respects on the Effective Date with the same effect as though made at and as of such time and W shall have received a certificate on behalf of HR of a senior officer of HR to that effect, dated the Effective Date, and W shall have no knowledge of the contrary.

4.03 Conditions to Obligations of HR

The obligation of HR to consummate the transactions contemplated hereby is subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by HR without prejudice to its right to rely on any other or others of them:

- (a) each of the acts and undertakings of W to be performed on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed by W;
- (b) the board of directors of W shall include two nominees of HR;
- (c) W shall have furnished HR with:
 - (i) certified copies of the resolution or resolutions of the board of directors of W approving the contents and mailing of the Information Circular and rights offering and otherwise approving the transactions contemplated hereby;

- (ii) certified copies of the resolution or resolutions duly passed at the Special Meeting approving the Arrangement; and
- (iii) a favourable opinion of Macleod, dated the Effective Date, satisfactory in form and substance in all material respects to HR to the effect that:
 - (A) W is duly incorporated and validly existing under the laws of Alberta and has the corporate power to own or lease its property and assets and to carry on its business as now conducted by it;
 - (B) except as such numbers may have been altered by the exercise of the options to purchase W Common Shares held by the employees and management of W and the rights of the holders of the W Preferred Shares to convert their shares to W Common Shares, immediately prior to the consummation of the transactions contemplated hereby the authorized capital of W consists of 50,000,000 Common Shares and 6,000,000 First Preferred Shares, of which 13,933,075 Common Shares, 1,550,000 First Preferred Shares, Series A and 1,973,156 First Preferred Shares, Series B have been issued as fully paid and non-assessable and are presently outstanding;
 - (C) W has the corporate power and authority to execute, deliver and perform its obligations under this Agreement;
 - (D) W has taken all necessary corporate action to authorize the execution and delivery of this Agreement and the performance of all its obligations hereunder;

- (E) this Agreement has been duly executed and delivered by W and constitutes a legal, valid and binding obligation of W enforceable in accordance with its terms subject to bankruptcy and similar laws affecting creditors generally and to equitable remedies being in the discretion of a court;
- (F) the W Common Shares to be issued to HR will upon their issuance in accordance with the terms of this Agreement and the Arrangement be validly issued and outstanding and be fully paid and non-assessable;
- (G) the execution, delivery and performance of this Agreement do not, and the Arrangement will not:
 - (1) result in the breach of or violate any terms or provisions of the Articles or By-Laws of W; or
 - (2) conflict with, result in a breach of, constitute a default under or accelerate or permit the acceleration of the performance required by any agreement or instrument to which W is a party or by which it is bound or to which any of its property is subject or result in the creation of any lien, charge or encumbrance upon any of the assets of W under any such agreement or instrument, or give to others any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement or instrument in each case known to Macleod; or
 - (3) violate any provisions of law or administrative regulation of Canada or any jurisdiction inside Canada in which W carries on business or, in each case known to Macleod, any judicial or

administrative order, award, judgment or decree, to which W is a party or by which it is bound;

- (H) all regulatory and similar approvals which are, in the opinion of Macleod, necessary in respect of the transactions contemplated hereby have been obtained; and

in giving such opinion, Macleod may rely, in respect of matters governed by the laws of any jurisdiction other than the Province of Alberta or the laws of Canada applicable therein, upon the opinion of local counsel in such jurisdiction; provided that, in the case of such opinion, Macleod is of the opinion that the opinion of such counsel is one upon which Macleod and HR may properly rely and, as to matters of fact, upon certificates of an officer of W or other appropriate person; and

- (d) except as affected by transactions contemplated by this Agreement, the representations and warranties of W contained in Article III (other than changes made in the ordinary course of business to the interests referred to in Subsection 3.01(f)) shall be true in all material respects on the Effective Date (except for the representation and warranty referred to in subsection 3.01(c) which shall be true in all material respects immediately prior to the consummation of the transactions contemplated herein) with the same effect as though such representations and warranties had been made at and as of such time, and HR shall have received a certificate on behalf of W of a senior officer of W to that effect, dated the Effective Date, and HR shall have no knowledge to the contrary.

ARTICLE V
IMPLEMENTATION OF ARRANGEMENT

5.01 On the business day after the Final Order is entered each party hereto shall meet at the office of Macleod in the City of Calgary and deliver to the other:

- (a) securities, agreements, cash payments and instruments referred to in Article II;
- (b) documents, opinions and other instruments referred to in Article IV to the extent the same may be given; and
- (c) instruments confirming whether all of the conditions in their respective favour outlined in Article IV hereof have been satisfied or waived.

5.02 Within three business days after all parties hereto have acknowledged to the other the satisfaction of all conditions in their favour, W shall cause to be sent to the Director pursuant to Section 186 of the Act articles of amendment in prescribed form relating to the Arrangement together with documents required by Section 108 of the Act relating to changes in the directors of W with the request that the certificate of amendment pursuant to subsection 186(11) of the Act be issued as soon as possible.

5.03 W shall promptly advise HR as to the date when such certificate of amendment is issued and the Effective Date.

ARTICLE VI
NOTICES

6.01 Notices

All notices which may or are required to be given pursuant to

any provision of this Agreement shall be given or made in writing and shall be served personally, and in the case of:

(a) HR addressed to: Helicopter Rentals Limited
Clarendon House
Church Street
Hamilton 5-31
Bermuda

Attention: C.H.D. Mayhew

with a copy addressed to: Bennett Jones
3100, 400 - 4 Avenue S.W.
Calgary, Alberta

Attention: W. Rice

(b) W addressed to: Westgrowth Petroleums Ltd.
14th Floor
Sunlife Plaza
144 - 4 Avenue S.W.
Calgary, Alberta

Attention: President

with a copy addressed to: Macleod Dixon
1500, 324 - 8 Avenue S.W.
Calgary, Alberta
T2P 2Z2

Attention: R. H. Boers

or such other address as the party may, from time to time, advise to the other parties hereto by notice in writing. The date of receipt of any such notice shall be deemed to be the date of delivery.

ARTICLE VII

AMENDMENT AND TERMINATION OF AGREEMENT

7.01 Amendment

This Agreement may, at any time and from time to time before or after the holding of the Special Meeting, be amended by written agreement of the Parties hereto without further notice to or authorization on the part of the holders of the W Common Shares and W Preferred Shares, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the Parties hereto;
- (b) waive any inaccuracies or modify any representation contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties hereto; and
- (d) assent to any modification or alteration of the Arrangement as the Court or any regulatory authority may require;

provided that, notwithstanding the foregoing, the number of W Common Shares which the holders of W Preferred Shares shall have the right to receive in accordance with the terms of the Arrangement may not be reduced without the approval of the shareholders of W given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court.

7.02 Termination

This Agreement may be terminated by mutual agreement of the parties hereto and the respective boards of directors of the parties hereto may on or before the Effective Date without further action on the part of the holders of the W Common Shares or W Preferred Shares authorize any such termination by mutual agreement. This Agreement shall also terminate upon the earliest of:

- (a) the failure of the Arrangement and the transactions contemplated therein to be approved and agreed to at the Special Meeting;
- (b) a refusal by the Court or by a Court of Appeal to approve the Arrangement;

- (c) a significant adverse financial impact upon either HR or W being caused as a consequence of a term of the Interim Order or Final Order including, without limitation;
 - (i) an alteration in the consideration required to be paid to the holders of the W Preferred Shares upon their conversion into W Common Shares; and
 - (ii) the granting of shareholders' rights of dissent and the exercise of such rights in respect of more than ten percent of the shares of any class then outstanding; and
- (d) December 31, 1986.

ARTICLE VIII

GENERAL

8.01 Binding Effect

This Agreement and the Arrangement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

8.02 Assignment

No party may assign its rights or obligations under this Agreement or the Arrangement without the prior written consent of the other party hereto.

8.03 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Alberta and shall be treated in all respects as an Alberta contract.

8.04 Time of Essence

Time shall be of the essence in this Agreement.

8.05 Counterparts

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

WESTGROWTH PETROLEUMS LTD.

Per: _____ (signed)

Per: _____ (signed)

HELICOPTER RENTALS LIMITED
by its duly authorized attorney in
this regard, W.S. Rice

_____ (signed)

RHB5.01

SCHEDULE "A"

TO THE ARRANGEMENT AGREEMENT MADE AS OF JUNE 11,
1986 BETWEEN WESTGROWTH PETROLEUMS LTD. AND
HELICOPTER RENTALS LIMITED

IN THE MATTER OF A PLAN OF ARRANGEMENT UNDER THE
BUSINESS CORPORATIONS ACT (ALBERTA) AS AMENDED

PLAN OF ARRANGEMENT

ARTICLE I

INTERPRETATION

1.01 In this Arrangement, unless there is something in the subject matter or context inconsistent therewith:

- (a) "Act" means the Business Corporations Act (Alberta), as amended, and all regulations adopted thereunder;
- (b) "Company" means Westgrowth Petroleum Ltd., a body corporate, incorporated under the Act;
- (c) "Arrangement" means the plan of arrangement set forth herein;
- (d) "H.R." means Helicopter Rentals Limited, a body corporate;
- (e) "Arrangement Agreement" means the agreement made as of June 11, 1986 between the Company and H.R. to which this Plan of Arrangement is attached as Schedule "A";
- (f) "W." means Westgrowth Petroleum Ltd., a body corporate;
- (g) "W. Common Shares" means the common shares as presently constituted of the Company;

- (h) "W. Preferred Shares" means the First Preferred Shares of the Company;
- (i) "Effective Date" means the date shown in the Certificate of Amendment relating to the Arrangement issued by the Registrar pursuant to subsection 186(11) of the Act; and
- (j) "Registrar" means the Registrar of Corporations or a Deputy Registrar of Corporations appointed under Section 253 of the Act.

1.02 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada.

1.03 Interpretation Not Affected by Headings, etc.

The division of this Arrangement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Arrangement and the Schedules hereto. The terms "this Arrangement", "hereof", "hereby", "herein" and "hereunder" and similar expressions refer to this Arrangement and not to any particular article, section, Schedule or other portion hereof.

1.04 Number, etc.

Unless the context requires the contrary, words importing the singular number only shall include the plural and vice versa; words importing the use of any gender shall include all genders; and words importing persons shall include firms and corporations and vice versa.

ARTICLE II
THE ARRANGEMENT

2.01 The Arrangement

On the Effective Date, the following shall occur and shall be deemed to occur without any further act or formality:

(a) Item 1 of the Articles of Continuance of the Company shall be amended to alter the name of the Company to Canadian Westgrowth Ltd.;

(b) Item 3 of the Articles of Continuance of the Company shall be amended to provide as follows:

"An unlimited number of common shares and an unlimited number of First Preferred Shares issuable in one or more series;

See Appendix 1 in respect of the common shares; see Appendix 2 in respect of the First Preferred Shares;"

(c) Appendix 1 to the Articles of Continuance of the Company shall be replaced with Appendix 1 attached hereto as Exhibit A and Appendix 2 to the Articles of Continuance of the Company shall be replaced with Appendix 2 attached hereto as Exhibit B;

(d) Item 5 of the Articles of Continuance of the Company shall be amended to provide for a minimum of three directors and a maximum of nine directors;

(e) Item 9 of the Articles of Continuance of the Company and Appendix 3 thereto shall be amended to include the following provisions:

"(d) Any resolution of the board of directors relating to (i) issuance of shares,

(ii) the borrowing of money or the leasing of assets, (iii) capital expenditures, (iv) the creation or amendment of a corporate business plan, (v) the declaration of dividends, (vi) the sale of all or substantially all its assets, or (vii) any amalgamation, consolidation or merger of the Corporation with or into any other corporation, must be approved by a majority of not less than three-fourths of the directors present and voting on such resolution."

- (f) Clause 4.01 of By-law No. 1 of the Company shall be amended to read as follows:

"Number: the Board shall consist of not less than three (3) nor more than nine (9) directors, at least half of whom shall be resident Albertans and at least two (2) of whom shall not be officers or employees of the Corporation or any affiliate of the Corporation."

- and Clause 5.08 of By-law No. 1 of the Company shall be amended to read as follows:

"Voting: Questions arising at any meeting of the Board shall be decided by a majority of votes with the exception of any resolution of the Board relating to (i) issuance of shares, (ii) the borrowing of money or the leasing of assets, (iii) capital expenditures, (iv) the creation or amendment of a corporate business plan, (v) the declaration of dividends, (vi) the sale of all or substantially all its assets, or (vii) any amalgamation, consolidation or merger of the Corporation with or into any other corporation, in which case the resolution must be approved by a majority of not less than three-fourths of the directors present and voting on such resolution. In case of an equality of votes the chairman of the meeting, in addition to his original vote, shall have a second or casting vote."

- (g) W. Preferred Shares the holders of which have elected in respect of such W. Preferred Shares to receive the sum of \$2.00 and four W. Common Shares for each such W. Preferred

Share shall be and be deemed to be exchanged with the Company for the sum of \$2.00 and four W. Common Shares for each such W. Preferred Share so exchanged;

- (h) W. Preferred Shares with respect to which subsection 2.01(g) does not apply shall be and be deemed to be exchanged with the Company for fourteen W. Common Shares for each such W. Preferred Share as exchanged;
- (i) Subsequent to the issuances of W. Common Shares pursuant to this section 2.01, each outstanding W. Common Share, including W. Common Shares issued pursuant to this Section 2.01, shall be and be deemed to be changed to one-twentieth of one W. Common Share; and
- (j) the stated capital of W. shall be and be deemed to be reduced by an amount equal to the amount of the deficit of W. as shown on the most recent financial statements of W. preceding the month in which occurs the Effective Date net of any contributed surplus arising upon the Arrangement Agreement being implemented.

2.02 Effect of Arrangement

- (a) With respect to the W. Preferred Shares to which subsection 2.01(g) applies:
 - (i) such W. Preferred Shares shall be deemed to be transferred to and cancelled by W.;
 - (ii) the holders of such W. Preferred Shares shall cease to be holders of such W. Preferred Shares and shall cease to have any rights whatsoever with respect to such W. Preferred Shares, and such holders' names shall be removed from the register of W. Preferred Shares with respect to such W. Preferred Shares exchanged; and

- (iii) there shall be and be deemed to be issued, subject to Section 3.02, to such holders by W. as fully paid and non-assessable such number of W. Common Shares calculated on the basis set forth in subsection 2.01(g) as adjusted by the provisions of subsection 2.01(k), and such holders' names shall be and be deemed to be added to the register of W. Common Shares as registered holders of such shares and such holders shall, subject to compliance with Article III hereof, be entitled to receive share certificates representing such W. Common Shares and, from the subscription price for the W. Common Shares issued pursuant to the obligation of HR to subscribe for W. Common Shares, a cash payment calculated on the basis set forth in subsection 2.01(g);

- (b) With respect to the W. Preferred Shares to which subsection 2.01(h) applies:
 - (i) such W. Preferred Shares shall be deemed to be transferred to and cancelled by W.;

 - (ii) the holders of such W. Preferred Shares shall cease to be holders of such W. Preferred Shares and shall cease to have any rights whatsoever with respect to such W. Preferred Shares and such holders' names shall be removed from the register of Preferred Shares with respect to such W. Preferred Shares exchanged; and

 - (iii) there shall be and be deemed to be issued, subject to Section 3.02, to such holders by W. as fully paid and non-assessable such number of W. Common Shares calculated on the basis set forth in subsection 2.01(h) as adjusted by the provisions of subsection 2.01(i), and such holders' names shall be and be deemed to be added to the register of W. Common Shares as holders of such shares and such holders shall, subject to compliance with Article III

hereof, be entitled to receive certificates representing such W. Common Shares;

ARTICLE III

OUTSTANDING CERTIFICATES, FRACTIONAL SHARES AND DIVIDENDS

3.01 On and after the Effective Date, certificates formerly representing the W. Preferred Shares shall represent only the right to receive certificates for the W. Common Shares and the cash payments pursuant to subsection 2.01(g) and the dividends and distributions referred to in Section 3.03 upon the holder depositing with National Trust Company such certificates duly endorsed for transfer and accompanied by such other documents and instruments as would have been required to effect a transfer of the W. Preferred Shares formerly represented by such certificates under the Act and the Articles of Continuance and By-Laws of the Company and as National Trust Company may reasonably require.

3.02 No fractional W. Common Shares will be issued. In case the provisions of Article II result in a holder, but for the immediately preceding sentence, being entitled to a fractional W. Common Share, (i) that holder will be entitled to and there shall be and be deemed to be issued to such holder that number of shares equal to the next highest whole number of W. Common Shares, and (ii) certificates representing that whole number shall be issued. In calculating fractional interests all W. Common Shares, including W. Common Shares issued pursuant to Article II, registered in the name of a holder shall be aggregated.

3.03 All dividends paid and distributions made in respect of the W. Common Shares issued pursuant to the Arrangement but for which a certificate has not been issued shall be paid to National Trust Company to be held by National Trust Company in trust for the registered holder thereof. All monies received by National Trust Company shall be invested by it in interest-bearing trust accounts upon such terms and with such financial institutions as National Trust Company may reasonably deem appropriate. National Trust Company shall, subject to applicable law,

pay and deliver to any registered holder of W. Common Shares as soon as reasonably practicable after application therefor is made by the registered holder to National Trust Company in such form as National Trust Company may reasonably require, such dividends, distributions and any interest thereon, net of withholding and other taxes.

3.04 As soon as practicable after the Effective Date, W. shall forward to each former holder of W. Preferred Shares at the address of such holder as it appears on the register of shareholders of the Company immediately prior to the Effective Date, a letter of transmittal and instruction for obtaining delivery of W. Common Shares and/or the cash arising out of the provisions of Article II and Section 3.03 as provided for in the Arrangement. Former holders of W. Preferred Shares may take delivery of W. Common Shares and/or the cash proceeds to which they are entitled by delivering the share certificate or certificates formerly representing the W. Preferred Shares to National Trust Company at its principal office in the cities of Montreal, Toronto, Calgary or Vancouver. Such certificate or certificates shall be accompanied by a duly completed letter of transmittal and the cash proceeds and the certificates for the W. Common Shares resulting from such exchange shall be issued in such name or names and delivered to such address or addresses as such registered holder may direct in such letter of transmittal as soon as practicable after receipt by National Trust Company of such certificate or certificates and such letter. No interest shall be payable by W in respect of any cash payments made to former holders of W. Preferred Shares in respect of the exchange by such holders of their W. Preferred Shares for cash and W. Common Shares.

RHB5.02

EXHIBIT 1
TO SCHEDULE "A"

APPENDIX 1

COMMON SHARES

The common shares shall have attached thereto the following:

1. the right to one vote per share held on a ballot at any meeting of the shareholders of the Corporation;
2. the right to receive dividends as and when declared by the Corporation on the common shares as a class, subject to prior satisfaction of all preferential rights to dividends attached to all shares of other classes of shares of the Corporation ranking in priority to the common shares in respect of dividends; and
3. the right to receive the remaining property of the Corporation on dissolution, subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of the Corporation ranking in priority to the common shares in respect of return of capital on dissolution.

NAA5.01

EXHIBIT 2 TO SCHEDULE "A"

APPENDIX 2

FIRST PREFERRED SHARES

The First Preferred Shares shall have attached thereto the right, privileges, restrictions and conditions as follows:

1. Directors' Right to Issue in One or More Series

The First Preferred Shares may at any time or from time to time be issued in one or more series, each series to consist of that number of shares as may be determined by the Directors prior to the issue of those shares. Subject to the provisions hereof, the Directors of the Corporation may by resolution fix, prior to the issue of a series, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series including, without limiting the generality of the foregoing, the issue price, the rate, amount or method of calculation of preferential dividends (which shall be cumulative) and whether the rate, amount or method of calculation will be subject to change or adjustment in the future, the date of payment of dividends, the redemption of purchase prices and terms and conditions of redemption or purchase, and, if there are any, conversion rights, voting rights, any sinking fund or other provisions and the rights of retraction vested in the holders of the First Preferred Shares of any series and the prices and the other terms and conditions of any rights of retraction and whether any additional rights of retraction may be vested in such holders in the future, the whole subject to the following provisions and to the issue of Articles of Amendment setting forth such designation, issue price, rights, privileges, restrictions and conditions attaching to the shares of each series.

2. Ranking of First Preferred Shares

The First Preferred Shares of each series shall rank on a

parity with the First Preferred Shares of every other series unless the resolution of the Directors establishing a series expressly provides that the series will be subordinate in any respect to any prior series of First Preferred Shares and whether or not issued and the First Preferred Shares will be entitled to a preference over the common shares of the Corporation and over any other shares ranking junior to the First Preferred Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purposes of winding-up its affairs. The First Preferred Shares may also be given other preferences not inconsistent with paragraphs 3 to 6 hereof over the common shares of the Corporation and over any other shares ranking junior to the First Preferred Shares authorized to be issued. When any dividends or amounts payable on a repayment of capital are not paid in full, the First Preferred Shares of all series shall participate rateably in respect of those dividends, including accumulations, if any, in accordance with the sums that would be payable on those shares if all dividends were declared and paid in full and on any repayment of capital in accordance with the sums that would be payable on repayment of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of such shares with respect to return of capital will be paid first and any assets remaining thereafter will be applied towards the payment and satisfaction of claims in respect of dividends.

3. No Pre-Emptive Rights

The holders of the First Preferred Shares will not be entitled to subscribe for, purchase or receive any part of any issue of shares, bonds, debentures or other securities of the Corporation hereinafter authorized, or any rights to acquire the same, other than in accordance with the conversion, exchange or other rights, if any, which may from time to time be attached to any series of the First Preferred Shares.

4. Creation and Issue of Additional Shares

So long as any of the First Preferred Shares are outstanding, the Corporation shall not, without prior approval by a majority of the votes cast at a meeting of the holders of the First Preferred Shares conducted in accordance with clause 6 below, issue any additional series of the First Preferred Shares or create or issue any shares of another class that rank prior to or on a parity with the First Preferred Shares with respect to the payment of dividends or the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs; provided that, subject to applicable law and subject to the provisions of any series of First Preferred Shares, the Corporation may at any time or from time to time, without such approval, (i) create additional First Preferred Shares, (ii) create one or more other classes of shares ranking on a parity with the First Preferred Shares with respect to the payment of dividends and/or the distribution of assets in event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, (iii) increase the maximum number of authorized shares of any one or more of such other classes of shares and (iv) if all dividends on each outstanding series of First Preferred Shares accrued to the most recently preceding date for the payment of dividends on such series shall have been declared and paid or set apart for payment, issue one or more additional series of the First Preferred Shares or issue any one or more of such other classes of shares or any one or more series thereof.

5. Amendment with Approval of Holders of First Preferred Shares

The provisions attaching to the First Preferred Shares as a class may be amended or repealed from time to time by special resolution of the holders of common shares and with such approval as may then (except as otherwise provided in paragraph 4) be required to be given by

the holders of the First Preferred Shares as a class, such approval to be given in the manner provided in paragraph 6.

6. Approval of Holders of First Preferred Shares

Any consent or approval given by the holders of First Preferred Shares as a class shall be deemed to have been sufficiently given if it has been given in writing by the holders of outstanding First Preferred Shares to which are attached at least 66 2/3% of the votes attached to all outstanding First Preferred Shares or by a resolution passed at a meeting of holders of First Preferred Shares duly called and held upon not less than 21 days notice at which the holders of outstanding First Preferred Shares to which are attached a majority of the votes to all outstanding First Preferred Shares are present or are represented by proxy and carried by the affirmative vote of not less than 66 2/3% of the votes cast at such meeting, in addition to any other consent or approval required by the Business Corporations Act (Alberta). If at any such meeting the holders of the outstanding First Preferred Shares to which are attached a majority of the votes attached to all outstanding First Preferred Shares are not present or represented by proxy within one-half hour after the time appointed for such meeting then the meeting will be adjourned to a date not less than 21 days thereafter and to such time and place as may be designated by the chairman, and not less than 10 days written notice will be given of the adjourned meeting. At the adjourned meeting the holders of First Preferred Shares present or represented by proxy may transact the business for which the meeting was originally convened and a resolution passed thereafter by affirmative vote of not less than 66 2/3% of the votes cast at the meeting will constitute the consent or approval of the holders of the First Preferred Shares. On every ballot taken at every such meeting every holder of First Preferred Shares shall be entitled to one vote in respect of each First Preferred Share held by such holder.

Subject to the foregoing, the formalities to be observed in respect of the giving or waiving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders.

NAA6.06

SCHEDULE "B"

CONVERTIBLE DEBENTURE

WESTGROWTH PETROLEUMS LTD.

Continued under the Alberta Business Corporations Act

ACKNOWLEDGEMENT OF INDEBTEDNESS

WESTGROWTH PETROLEUMS LTD. (the "Corporation"), for value received, hereby acknowledges itself indebted, and promises to pay to, or to the order of, the Holder, the Principal Amount upon presentation of this Debenture and to pay interest on the Principal Amount at the rate of eight (8%) percent per annum to Helicopter Rentals Limited, c/o Bank of Bermuda Limited, Bank of Bermuda Building, Hamilton, Bermuda, or at such other place as the Holder may designate by notice in writing to the Corporation, and should the Corporation at any time make default in the payment of any Principal Amount or interest, to pay interest on the amount in default, both before and after default and judgment, at the same rate in like money at the same place on the same dates all in accordance with the following terms and conditions.

1. Definitions

In this Debenture, the following terms shall have the meaning ascribed thereto, unless the context otherwise requires:

- (a) "Advance" means any borrowings under the Credit Facility by the Corporation;
- (b) "Business Day" means a day on which chartered banks are normally open for business in the City of Calgary;

- (c) "Common Shares" means fully paid and non-assessable common shares in the capital of the Corporation as constituted immediately after the Effective Date;
- (d) "Conversion Price" means the dollar amount for which each Common Share may be issued upon the conversion of this Debenture in accordance with the provisions of clauses 6 and 7 hereof;
- (e) "Credit Facility" means the revolving term facility which has been established in favour of the Corporation by the Holder as described herein;
- (f) "Date of Conversion" means that date when the Holder surrenders this Debenture to the Corporation in accordance with the provisions of Clause 6 hereof;
- (g) "Date of Draw Down" means the initial date upon which the Corporation receives Advances in accordance with the terms and conditions of this Debenture;
- (h) "Effective Date" means the date upon which The Plan of Arrangement pursuant to Section 186 of the Business Corporations Act (Alberta) and as contemplated by that Arrangement Agreement dated June 11, 1986 becomes effective in accordance with the provisions of the said Act;
- (i) "Holder" means Helicopter Rentals Limited, or any transferee of this Debenture;
- (j) "Initial Loan Limit" means One Million (\$1,000,000) Dollars;
- (k) "Loan Limit" means One Million (\$1,000,000) Dollars or such greater amount as may be available for utilization by the Corporation under the Credit Facility as the same may be

increased pursuant to the provisions of Clause 5 hereof up to a limit of Three Million (\$3,000,000) Dollars;

- (1) "Maturity Date" means the date which is the third anniversary of the Date of Draw Down; and
- (m) "Principal Amount" means the total from time to time of all Advances received by the Corporation less any amounts which the Corporation has paid to the Holder pursuant to its obligations hereunder not including interest.

2. Advances

- (a) The Corporation acknowledges and agrees that Advances of the Principal Amount requested from the Holder shall be used for the general corporate purposes of the Corporation and may be received only during the period commencing upon the Effective Date and terminating on the first anniversary of the Effective Date; and
- (b) The Holder acknowledges and agrees that during the period commencing upon the Effective Date and terminating on the first anniversary of the Effective Date it shall make all Advances to the Corporation within two Business Days of receipt of a request from the Corporation.

3. Interest

The Principal Amount shall bear interest from and including the date of each Advance until such Advance or portion thereof has been repaid by the Corporation in accordance with the terms hereof. Subject to Clause 4 hereof, the Corporation shall pay to the Holder the interest which has accrued in respect of the Principal Amount from the later of the Date of Draw Down or the last interest payment date on which interest has been paid or made available for payment, on the last Business Day of every third calendar month, the first such payment to fall due on

the last Business Day of the third calendar month following the calendar month in which occurs the Date of Draw Down; provided however, that if the Holder exercises its option to convert the Principal Amount into Common Shares in accordance with Clause 6 hereof, the Corporation shall pay to the Holder on the Date of Conversion the interest which has accrued and remains unpaid on the Principal Amount to the date thereof, and after the Date of Conversion no interest shall be payable in respect of the Principal Amount. Notwithstanding the foregoing, the Corporation shall withhold from any payment of interest to the Holder required hereunder an amount equal to any withholding tax properly due and the Corporation shall promptly remit such amount to the appropriate governmental agency such that any interest payment made to the Holder net of any applicable withholding tax shall be full and complete performance of the Corporation's obligation to pay interest hereunder.

4. Repayment

Provided that the Holder has not exercised its option to convert the Principal Amount into Common Shares in accordance with the provisions of Clause 6 hereof, the Principal Amount to a maximum amount of \$1,000,000, plus any accrued and unpaid interest thereon, shall be due and payable on Maturity Date. If at Maturity Date the Principal Amount is in excess of \$1,000,000, such excess to a maximum of \$1,000,000, plus any accrued and unpaid interest thereon, shall be due and payable on the date of the first anniversary of the Maturity Date and any residue of the Principal Amount not due and payable at said first anniversary date, plus any accrued and unpaid interest thereon, shall be due and payable on the date of the second anniversary of the Maturity Date.

5. Increase in Principal Amount

In the event that during the period from the Effective Date to the first anniversary of the Effective Date the Corporation delivers notice in writing to the Holder requesting Advances in excess of the Initial Loan Limit and provided that the Debenture has not been

converted in accordance with Clause 6 hereof, the Holder has in its sole discretion a recurring option, exercisable at any time prior to the first anniversary of the Effective Date, to increase the Loan Limit of the Credit Facility to a maximum of Three Million (\$3,000,000) Dollars and each time this option is exercised the terms and conditions of this Debenture shall apply with the same force and effect as with respect to the Initial Loan Limit.

6. Conversion

Subject to the provisions of Clause 7 hereof, this Debenture is convertible into Common Shares, at the option of the Holder, upon surrender of this Debenture at the principal office of the Corporation in the City of Calgary at any time up to the close of business on the Business Day immediately preceding the date of the second anniversary of the Maturity Date on the following basis:

- (a) from the Effective Date to the first anniversary of the Effective Date one Common Share for each Five (\$5.00) Dollars of the Principal Amount as of the Date of Conversion;
- (b) from the first anniversary of the Effective Date to the second anniversary of the Effective Date one Common Share for each Six (\$6.00) Dollars of the Principal Amount as of the Date of Conversion; and
- (c) subsequent to the second anniversary of the Effective Date one Common Share for each Eight (\$8.00) Dollars of the Principal Amount as of the Date of Conversion.

7. Adjustment of Conversion Price

The Conversion Price in effect at any date shall be subject to adjustment from time to time as follows:

- (a) If and whenever at any time after the Effective Date and prior to the Date of Conversion, the Corporation shall (i) subdivide or redivide the outstanding Common Shares into a greater number of shares, (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of shares, or (iii) issue Common Shares of the Corporation to the holders of all or substantially all of the outstanding Common Shares by way of a stock dividend (other than the issue of Common Shares to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of Common Shares in lieu of dividends paid in the ordinary course of the Common Shares), the Conversion Price in effect on the effective date of such subdivision, redivision reduction, combination or consolidation or on the record date for such issue of Common Shares by way of a stock dividend, as the case may be, shall in the case of the events referred to in (i) and (iii) above be decreased in proportion to the number of outstanding Common Shares resulting from such subdivision, redivision or dividend, or shall, in the case of the events referred to in (ii) above, be increased in proportion to the number of outstanding Common Shares resulting from such reduction, combination or consolidation. Such adjustment shall be made successively whenever any event referred to in this subsection (a) shall occur; any such issue of Common Shares by way of a stock dividend shall be deemed to have been made on the record date for the stock dividend for the purpose of calculating the number of outstanding Common Shares under subsections (a) and (c) of this Clause 7;
- (b) If and whenever at any time after the Effective Date and prior to the Date of Conversion the Corporation shall fix a record date for the issuance of rights or warrants to all or substantially all the holders of its outstanding shares of all classes entitling them, for a period expiring not more than forty-five (45) days after such record date, to subscribe for or purchase Common Shares (or securities convertible into

Common Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Common Share on such record date, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible securities so offered) by such Current Market Price per Common Share, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase (or into which the convertible securities so offered are convertible); any Common Shares owned by or held for the account of the Corporation shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that any such rights or warrants are not so issued or any such rights or warrants are not exercised prior to the expiration thereof, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Price which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually issued upon the exercise of such rights or warrants, as the case may be;

- (c) If and whenever at any time after the Effective Date and prior to the Date of Conversion the Corporation shall fix a record date for the making of a distribution to all or substantially all the holders of its outstanding Common Shares of (i) shares of any class other than Common Shares and other than shares

distributed to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of such shares in lieu of dividends paid in the ordinary course on the Common Shares or (ii) rights, options or warrants (excluding those referred to in subsection (b) of this Clause 7 or (iii) evidences of its indebtedness or (iv) assets (excluding dividends paid in the ordinary course) then, in each such case, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date multiplied by the Current Market Price per Common Share on such record date, less the fair market value (as determined by the board of directors of the Corporation with the approval of the Holder, which determination shall be conclusive) of such shares or rights, options or warrants or evidences or indebtedness or assets so distributed, and of which the denominator shall be the total number of Common Shares outstanding on such record date multiplied by such Current Market Price per Common Share; any Common Shares owned by or held for the account of the Corporation shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that such distribution is not so made, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Rate which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or assets actually distributed, as the case may be; in Clause (iv) of this subsection (c) the term "dividends paid in the ordinary course" shall include the value of any securities or other property or assets distributed in lieu of cash dividends;

- (d) For the purpose of any computation under clauses (b) or (c) of this Clause 7, the "Current Market Price" per Common Share at any date shall be the weighted average price per share for Common Shares for thirty (30) consecutive trading days commencing not more than forty-five (45) trading days before such date on The Toronto Stock Exchange, or, if the Common Shares are not listed thereon, on such stock exchange on which the Common Shares are listed as may be selected for such purpose by the board of directors of the Corporation and approved by the Holder or, if the Common Shares are not listed on any stock exchange, then on the over-the-counter market. The weighted average price shall be determined by dividing the aggregate sale price of all Common Shares sold on the said exchange or market, as the case may be, during the said thirty (30) consecutive trading days by the total number of Common Shares so sold;
- (e) In the case of any reclassification or change (other than a change resulting only from consolidation or subdivision) of the Common Shares or in case of any amalgamation, consolidation or merger of the Corporation with or into any other corporation, or in the case of any sale of the properties and assets of the Corporation, as or substantially as, an entirety to any other corporation, the Conversion Price shall be adjusted so that this Debenture shall, after such reclassification, change, amalgamation, consolidation, merger or sale, be exercisable for the number of shares or the number, kind or amount of other securities or property of the Corporation, or such continuing, successor or purchaser corporation, as the case may be, which the Holder would have been entitled to receive as a result of such reclassification, change, amalgamation, consolidation, merger or sale if on the effective date thereof the Holder had held the number of Common Shares into which the Debenture was convertible prior to the effective date of such reclassification, change, amalgamation, consolidation, merger or sale. No such reclassification, change,

amalgamation, consolidation, merger or sale shall be carried into effect unless, in the opinion of the Board of Directors, all necessary steps shall have been taken to ensure that the holders shall thereafter be entitled to receive such number of shares or other securities or property of the Corporation, or such continuing, successor or purchasing corporation, as the case may be, subject to adjustment thereafter in accordance with provisions similar, as nearly as may be, to those contained in this Clause 7;

- (f) In any case in which this Clause 7 shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Corporation may defer, until the occurrence of such event, issuing to the Holder if the Holder has exercised its option pursuant to Clause 6 hereof after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event before giving effect to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Common Shares upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares declared in favour of holders of record of Common Shares on and after the Date of Conversion or such later date as such holder would, but for the provisions of this subsection (f), have become the holder of record of such additional Common Shares pursuant to Subclause 7(b);.

- (g) The adjustments provided for in this Clause 7 are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Clause, provided that, notwithstanding any other provision of this Clause, no adjustment of the

Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one (1%) percent in the Conversion Price then in effect; provided however, that any adjustments which by reason of this Subclause (g) are not required to be made shall be carried forward and taken into account in any subsequent adjustment;

- (h) For the purpose of calculating the number of shares of the Corporation outstanding, shares owned by or for the benefit of the Corporation or its subsidiaries shall not be counted; and
- (i) In the event of any question arising with respect to the adjustments provided in this Clause 7, such question shall be conclusively determined by the auditors of the Corporation or such other firm of chartered accountants as agreed upon by the Corporation and acceptable to the Holder; such accountants shall have access to all necessary records of the Corporation and such determination shall be binding upon the Corporation and the Holder.

8. No Requirement to Issue Fractional Shares

The Corporation shall not be required to issue fractional Common Shares upon the conversion of this Debenture pursuant to Clause 6. If any fractional interest in a Common Share would, except for the provisions of this Clause, be deliverable upon the conversion of Debenture, the Corporation shall, in lieu of delivering any certificate of such fractional interest, satisfy such fractional interest by paying to the Holder an amount in lawful money of Canada equal (computed to the nearest cent) to the appropriate fraction of the value (being the last reported sale price or, if none, the mean between the closing bid and ask quotations on The Toronto Stock Exchange, or, if the Common Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which the Common Shares are listed, as may be selected for such purpose by the board of directors of the Corporation and approved by the Holder or, if the Common Shares are not listed on any stock exchange, a value

determined by the board of directors of the Corporation and approved by the Holder) of a Common Share on the Business Day immediately preceding the Date of Conversion.

9. Covenants of the Corporation

The Corporation hereby covenants and agrees with the Holder as follows:

- (a) the Corporation will carry on and conduct its business in a proper and efficient manner; and at all reasonable times it will furnish or cause to be furnished to the Holder or its duly authorized agent or attorney such information relating to the business of the Corporation and the subsidiaries of the Corporation as the Holder may reasonably require; and, subject to the express provisions hereof, it will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights;
- (b) the Corporation will furnish to the Holder a copy of all financial statements distributed to shareholders of the Corporation, and the report, if any, of the Corporation's auditors thereon;
- (c) the Corporation will at all times reserve and keep available out of its authorized Common Shares, solely for the purpose of issue to the Holder upon conversion of this Debenture as provided for in Clause 6 hereof such number of fully paid and non-assessable Common Shares as shall then be issuable upon the conversion of this Debenture;
- (d) the Corporation will take all such steps and actions and do all such things that may be required to maintain the listing and posting for trading of the Common Shares of the Corporation on The Toronto Stock Exchange and in each of the provinces of Canada where appropriate to maintain its status

as a "reporting issuer" not in default of the requirements of the securities acts and regulations;

- (e) if any prospectus or other instrument is required to be filed with, or any permission is required to be obtained from, any securities regulatory authority or any other step is required under any federal or provincial law of Canada before any Common Shares which the Holder is entitled to receive upon the conversion of this Debenture may properly and legally be delivered upon the due exercise thereof, the Corporation will take all such action, at its expense, as is required or appropriate in the circumstances;
- (f) the Corporation will give written notice of the issue of Common Shares upon the conversion of this Debenture, in such detail as may be required, to each securities commission or similar regulatory authority in each jurisdiction in Canada in which there is legislation requiring the giving of any such notice.

8. Default

Upon the happening of any one or more of the following events, namely:

- (a) if the Corporation makes default in payment of any amount which becomes due and payable under any provision of this Debenture;
- (b) if a decree or order of a court having jurisdiction in the premises is entered adjudging the Corporation or any subsidiary, the assets of which are material having regard to the consolidated assets of the Corporation and its subsidiaries (herein called a "Substantial Subsidiary"), a bankrupt or insolvent under the Bankruptcy Act (Canada) or any other bankruptcy, insolvency or analogous laws, or issuing

sequestration or process of execution against, or against any substantial part of, the property of the Corporation or any Substantial Subsidiary, or appointing a receiver of, or of any substantial part of, the property of the Corporation or any Substantial Subsidiary, or ordering the winding up, liquidation or reorganization of its affairs, and any such decree or order is not stayed;

- (c) if a resolution is passed for the winding up or liquidation of the Corporation or a Substantial Subsidiary or if the Corporation or a Substantial Subsidiary institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it under the Bankruptcy Act (Canada) or any other bankruptcy, insolvency or analogous laws, or consents to the filing of any such petition or to the appointment of a receiver of, or of any substantial part of, the property of the Corporation or any Substantial Subsidiary, or makes a general assignment for the benefit of creditors becomes unable, or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherances of any of the aforesaid purposes;

- (d) if, under the provisions of any instrument evidencing any indebtedness of either the Corporation or any Substantial Subsidiary for the payment of borrowed moneys or of any agreement relating thereto, an event of default shall occur (the effect of which is to permit the holder or holders of an instrument or the trustee or agent on behalf of such holder or holders, to cause the indebtedness evidenced by such instrument to become due prior to its date of maturity) and such default has not been waived or rectified within any grace period relating thereto or if any obligation of either the Corporation or any Substantial Subsidiary for the payment of indebtedness shall become due and payable prior to its date of maturity or shall not be paid when due (whether by

acceleration or otherwise) and the immediate payment of the outstanding indebtedness under any such instrument would cause a continuing material adverse change in the operations or conditions (financial or otherwise) of the Corporation or Substantial Subsidiary materially affecting the ability of the Corporation to fully perform its obligations hereunder;

- (e) if there shall at any time occur and be continuing a material adverse change in the operations, business, property or assets of or in the condition (financial or otherwise) of either the Corporation or a Substantial Subsidiary which materially affects the ability of the Corporation to fully perform its obligations hereunder; and
- (f) if the Corporation shall neglect to observe or perform any other covenant or condition herein contained on its part to be observed or performed and, after notice in writing has been given by the Holder to the Corporation specifying such default and requiring the Corporation to put an end to the same, the Corporation shall fail to make good such default within a period of 30 days, unless the Holder (having regard to the subject matter of the default) shall have agreed to a longer period, and in such event, within the period agreed to by the Holder;

then in each and every such event the Holder may in its discretion, by notice in writing to the Corporation, declare the Principal Amount and any interest accrued thereon to be due and payable and the same shall forthwith become immediately due and payable to the Holder, anything herein to the contrary notwithstanding.

9. Waiver of Default

The waiver by either the Corporation or the Holder of any default by the other under this Debenture must be in writing and describe in reasonable detail the default being waived and such waiver in

writing will be deemed to operate as a waiver only of the default therein described and not as a waiver of any other or subsequent default, whether of a like or different nature.

10. Canadian Currency

All references herein to amounts of money required to be advanced or repaid shall be references to amounts in Canadian currency.

11. Assignment

This Debenture and all rights hereunder may be assigned by the Holder hereof free from any right of set-off, counterclaim or equity between the Corporation and Holder; provided however, that notwithstanding the assignment of this Debenture the Corporation may continue to look to Helicopter Rentals Limited and all subsequent Holders of the Debenture for the performance of the obligations of the Holder hereunder.

12. Applicable Law

This Debenture shall be governed and administered according to the laws of the Province of Alberta, and no actions shall be brought with reference to any matter relating thereto except in the courts of the said province.

13. Successors and Assigns

This Debenture shall be binding upon the Corporation, its

successors and assigns and shall enure to the benefit of the Holder, its successors and assigns.

IN WITNESS WHEREOF this Convertible Debenture has been executed under seal at the City of Calgary, in the Province of Alberta, this ____ day of _____, 1986.

WESTGROWTH PETROLEUMS LTD.

Per: _____

Per: _____

HELICOPTER RENTALS LIMITED
by its duly authorized attorney
in this regard

RHB5.04

SCHEDULE "C"

A. Dutch Sector

Westgrowth Petroleum Ltd. owns indirectly a five (5%) percent working interest in a Petroleum and Natural Gas prospecting licence comprising 5,500 hectares (13,875 acres) known as Block L-6-c Netherland Continental Shelf.

Net Hectares: 278

B. German Sector

Westgrowth Petroleum Ltd. owns indirectly a 50% working interest in an exploration permit containing approximately 59,280 hectares (148,200 acres) known as Blocks C-9, 11, 12 and 14.

Net Hectares: 29,640

APPENDIX 2
RESOLUTION NO. 1

BE IT RESOLVED by the shareholders of Westgrowth Petroleum
Ltd. (the "Corporation") that:

1. The grant of options to purchase 30,000 common shares to Dr. Phillip Sigmund, a director of the Corporation, by the board of directors at a Directors' Meeting on May 11, 1985 is hereby ratified, confirmed, adopted and approved on the terms and conditions set forth in the Minutes of the said Directors' Meeting.

NAA20.07

APPENDIX 3
RESOLUTION NO. 2

BE IT RESOLVED as a Resolution of the shareholders of Westgrowth Petroleum Ltd. (the "Corporation") that:

1. The Conveyance Agreement made June 11, 1986 between the Corporation and Heli-Union B.E.A.S. Limited is hereby ratified, confirmed, adopted and approved;

2. The directors and officers of the Corporation are hereby authorized, without limitation, to execute and deliver all such documentation and to perform all such other acts as may be necessary or desirable to give full force and effect to this resolution and to the transactions contemplated by the Conveyance Agreement.

NAA20.10

APPENDIX 4
SPECIAL RESOLUTION NO. 1

BE IT RESOLVED as a Special Resolution of the shareholders of Westgrowth Petroleums Ltd. (the "Corporation") that:

1. The common share capital account of the Corporation be and is hereby reduced pursuant to Section 36(1) of the Business Corporations Act of Alberta by that amount which is equal to the amount of the deficit of the Corporation as shown on the balance sheet of the most recent financial statements of the Corporation; and
2. The directors and officers are hereby authorized to perform all such other acts as may be necessary or desirable to give full force and effect to this resolution.

NAA20.08

APPENDIX 5
SPECIAL RESOLUTION NO. 2

BE IT RESOLVED as a Special Resolution of the holders of the Common/Preferred (as applicable) Shares of Westgrowth Petroleums Ltd. (the "Corporation") that:

1. The Arrangement Agreement and the Plan of Arrangement attached thereto dated June 11, 1986 between the Corporation and Helicopter Rentals Limited is hereby ratified, confirmed, adopted and approved;
2. The directors and officers of the Corporation are hereby authorized to execute and deliver all such documentation and to perform all such other acts as may be necessary or desirable to give full force and effect to this resolution and to the transactions contemplated by the Arrangement Agreement and the Plan of Arrangement including, without limiting the generality of the foregoing:
 - (a) the application for an Order of the Queen's Bench of Alberta approving the Plan of Arrangement;
 - (b) the filing of the Order approving the Plan together with the amended Articles of Continuance and any other documents required to be filed therewith pursuant to Section 186 of the Business Corporations Act with the Director of Corporations;
 - (c) the execution, delivery and performance of the Convertible Debenture;
3. The directors of the Corporation are hereby authorized to amend by written agreement with Helicopter Rentals Limited the terms and conditions of the Arrangement Agreement without the prior approval or subsequent ratification of such amendment by the shareholders of the Corporation with the exception of any variation which reduces the number of common shares to be issued pursuant to the conversion of the Preferred Shares which shall require a further approval by a vote of the Corporation's shareholders; and
4. The directors of the Corporation are hereby authorized to resolve not to proceed with the implementation of the Arrangement Agreement or the Plan of Arrangement if, in their opinion, it would not be in the best interests of the Corporation.