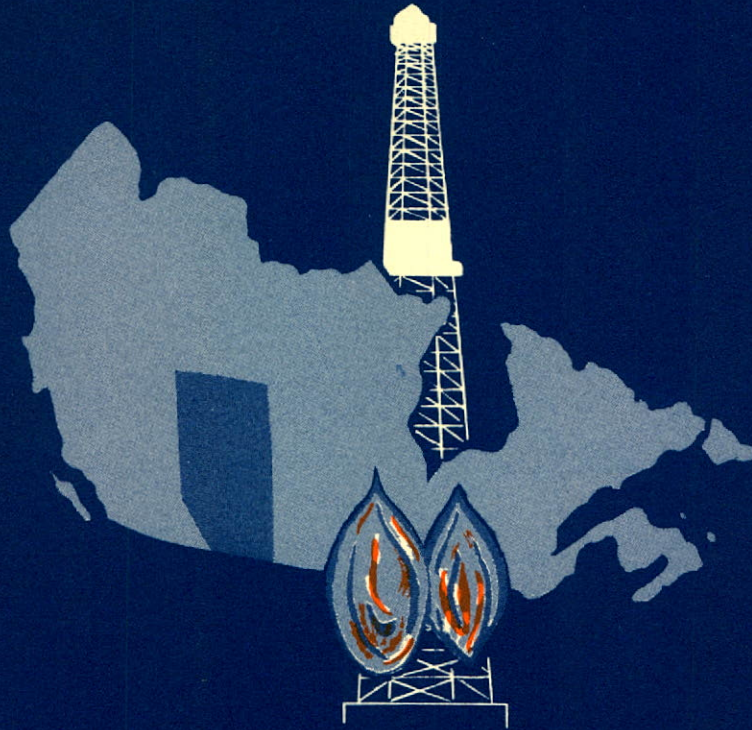


annual report
march 31, 1974



MIDCON
OIL & GAS
LIMITED

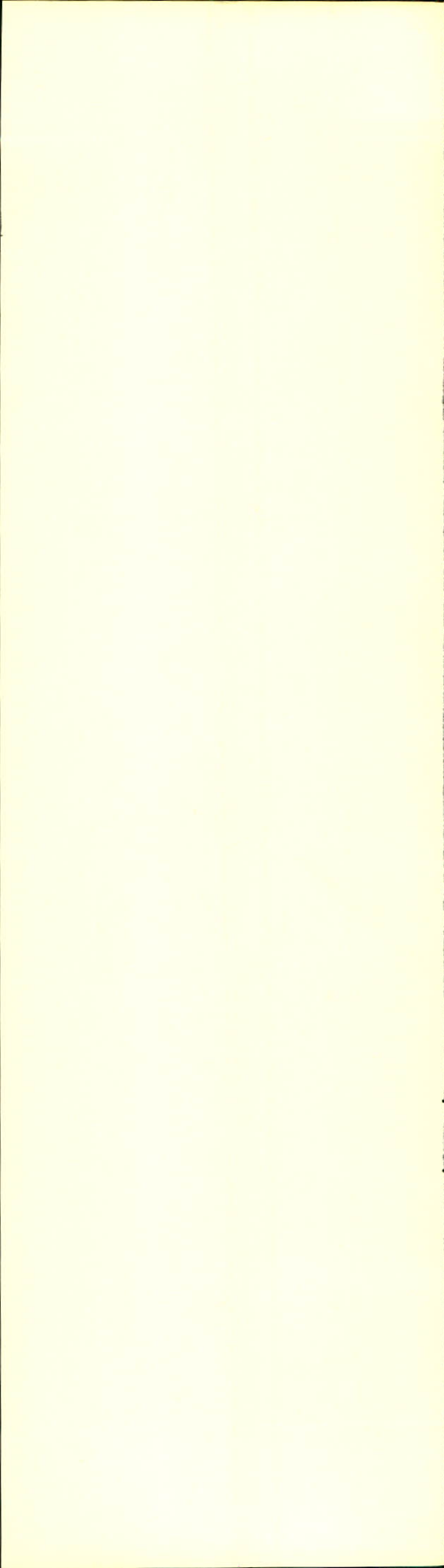
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MIDCON OIL & GAS
MARCH 1974



**MIDCON
OIL & GAS
LIMITED**

**annual report
march 31, 1974**



MIDCON OIL & GAS LIMITED



NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual general meeting of the shareholders of Midcon Oil & Gas Limited (the "Company") will be held at Four Seasons-Sheraton Hotel, Wentworth Room, 123 Queen Street West, Toronto, Ontario, on Tuesday, the 30th day of July, 1974, at the hour of 11.30 o'clock in the forenoon (Eastern Daylight Saving Time) for the following purposes:

1. To receive the consolidated balance sheet of the Company and its subsidiary as at March 31st, 1974, together with the statement of consolidated income and deficit, the consolidated statement of profit and loss and the consolidated statement of source and application of funds for the year ended March 31, 1974, together with the reports of the directors and the auditors on the said consolidated balance sheet and consolidated statements.
2. To elect directors.
3. To appoint auditors and to authorize the directors to fix their remuneration.
4. To transact such other business as may properly come before the said meeting or any adjournment thereof.

DATED at Toronto, Ontario, this 2nd day of July, 1974.

BY ORDER OF THE BOARD,

W. E. Rearden,
Secretary.

INFORMATION CIRCULAR

This circular is furnished in connection with the solicitation of proxies by management of Midcon Oil & Gas Limited (hereinafter sometimes called the "Company") for use at the annual general meeting of shareholders of the Company to be held on Tuesday, the 30th day of July, 1974, at Four Seasons-Sheraton Hotel, Wentworth Room, 123 Queen Street West, Toronto, Ontario, Canada, for the purposes set forth in the foregoing notice of meeting.

RIGHT OF REVOCATION

A shareholder executing the enclosed proxy has the power to revoke it at any time before it is exercised.

PERSONS MAKING SOLICITATION AND METHOD THEREOF

The enclosed proxy is solicited by the management of the Company and the cost of solicitation will be borne by the Company. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Company at nominal cost.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The directors of the Company have resolved that the share transfer register shall be closed after July 15, 1974, and no transfer of shares shall be made until after July 31, 1974. Accordingly, only shareholders of record at the close of business on July 15, 1974, will be entitled to vote at the annual meeting. Each share of the Company is entitled to one vote. The Company has only one class of shares. At June 28, 1974, the Company had outstanding 4,300,000 shares without par value.

To the knowledge of the directors or senior officers of the Company, the following was at June 28, 1974, the only beneficial owner directly or indirectly of equity shares of the Company which carry more than 10% of the voting rights attached to all equity shares of the Company:

<u>Name of Shareholder</u>	<u>Approximate number of shares</u>	<u>Percentage of out- standing equity shares represented</u>
Yellowknife Bear Mines Limited	1,564,490	36.39%

ELECTION OF DIRECTORS

The shareholders will be asked at the annual general meeting to elect five (5) directors. The following are the names of the five persons for whom it is intended that votes will be cast for their election as directors pursuant to the proxy which is hereby solicited: Robert G. Price, J. F. Paxton, J. Douglas Streit, William E. Rearden, and H. C. Kerr, Q.C.

The term of office for each director is from the date of the meeting at which he is elected until the annual general meeting next following or until his successor is elected or appointed. In the event that prior to the annual general meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that discretionary authority shall be granted to vote the shares represented by the proxy for the election of any other person or persons as directors. The management is not presently aware that any of such nominees would be unwilling to serve as a director if elected.

J. Douglas Streit is the President, J. F. Paxton is Vice-President, and W. E. Rearden is the Secretary of the Company at present.

INFORMATION CONCERNING NOMINEES AS DIRECTORS

<u>Name and Principal Occupation</u>	<u>Period(s) served as a Director</u>	<u>Shares beneficially owned directly or indirectly as of July 2, 1974</u>
JAMES F. PAXTON, Mining Executive	Since August, 1956	501
J. DOUGLAS STREIT, Member of Toronto Stock Exchange and Geologist	Since July, 1957	125,853
WILLIAM E. REARDEN, Secretary	Since July, 1967	1,000
ROBERT G. PRICE, Petroleum Engineer	Since July, 1968	10
H. C. KERR, Q.C. Lawyer	Since June 8, 1973	5,000

All nominees have held the principal occupations indicated for more than the last five years.

REMUNERATION OF MANAGEMENT

During the fiscal year ended March 31, 1974, the aggregate direct remuneration paid by the Company and its subsidiary whose financial statements are consolidated with those of the Company, to directors and senior officers was \$4,700.00. The Company paid \$6,358.41 during such fiscal year by way of head office rental and secretarial fees to a private company whereof J. Douglas Streit is an officer, director and shareholder.

APPOINTMENT OF AUDITORS

It is intended to vote the shares represented by the enclosed form of proxy to re-appoint the firm of McCormack, Parker and Hester, Chartered Accountants, of Toronto, the present auditors, as the auditors of the Company. They were first appointed auditors of the Company on July 27, 1966.

PARTICULARS OF MATTERS TO BE ACTED UPON AND DISCRETIONARY AUTHORITY

Management is not aware that any matters will be submitted to the forthcoming annual general meeting of shareholders other than the receipt and consideration of the aforesaid consolidated financial statements, the election of directors and the appointment of auditors, all as referred to in the foregoing notice of meeting. If any other matters not now known to management shall properly come before the meeting, including a vacancy or vacancies caused by one or more of the nominees for directors becoming unavailable for election, the shares represented by the enclosed form of proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy, and discretionary authority necessary in such event is conferred by any person completing the enclosed form of proxy.

MANNER OF VOTING PROXIES

The shares represented by proxies in the form enclosed will be voted, and will be voted in accordance with the statements made above. It is intended that the accompanying instrument of proxy, if signed, dated and returned to the Company prior to the meeting and completed in the names of the persons therein named, will be voted in the election of the board of directors and in favour of the appointment of auditors aforesaid, all as set forth above.

THE PERSONS NAMED IN THE ACCOMPANYING INSTRUMENT OF PROXY ARE OFFICERS OF THE COMPANY. A SHAREHOLDER HAS THE RIGHT TO APPOINT ANY PERSON OTHER THAN THOSE NAMED TO REPRESENT HIM AT THE MEETING AND IF USING THE ACCOMPANYING INSTRUMENT, MAY EXERCISE SUCH RIGHT BY INSERTING THE NAME OF HIS NOMINEE IN THE SPACE PROVIDED THEREFOR. A SHAREHOLDER MAY SUBMIT ANY OTHER APPROPRIATE INSTRUMENT OF PROXY.

DATED as of this 2nd day of July, 1974.

Printed in Canada

MIDCON OIL & GAS LIMITED

OFFICERS AND DIRECTORS

OFFICERS	J. DOUGLAS STREIT - - - - - <i>President</i>
	J. F. PAXTON - - - - - <i>Vice-President</i>
	W. E. REARDEN - - - - - <i>Secretary-Treasurer</i>
	GEORGE BROWN - - - - - <i>Assistant Secretary-Treasurer</i>
DIRECTORS	H. C. KERR, Q.C. - - - - - <i>Toronto</i>
	J. F. PAXTON - - - - - <i>Toronto</i>
	R. G. PRICE - - - - - <i>Calgary</i>
	W. E. REARDEN - - - - - <i>Toronto</i>
	J. DOUGLAS STREIT - - - - - <i>Toronto</i>
AUDITORS	MCCORMACK, PARKER & HESTER - - - - - <i>Toronto, Ontario</i>
BANKERS	CANADIAN IMPERIAL BANK OF COMMERCE - - - - - <i>Toronto, Ontario</i>
TRANSFER AGENTS	GUARANTY TRUST COMPANY OF CANADA - <i>Toronto and Calgary</i>
HEAD OFFICE	727 - 7TH AVENUE SOUTH WEST - - - - - <i>Calgary, Alberta</i>
EXECUTIVE OFFICE	ROOM 1000, 360 BAY STREET - - - - - <i>Toronto, Ontario</i>



Report of the Directors

To the Shareholders,
MIDCON OIL & GAS LIMITED.

Your Directors submit for your consideration the Annual Report of your Company with attached Financial Statements, Balance Sheet and Auditors' Report for the fiscal year ended March 31st, 1974.

FINANCIAL

Net income for the year increased slightly over last year in spite of writing off \$44,000.00 in dry hole cost during the year. You will note a change in the presentation of the Financial Statements this year due to the accounting profession adopting the principle of calculating income taxes on the deferred income tax basis. This is explained more fully in Auditor's Note #1, to the Financial Statements.

LAND AND EXPLORATION

Arctic Islands

Map #1, shows the Arctic Island permit blocks in which Midcon and its subsidiary Inter-Rock Oil Co. of Canada hold a 50% working interest.

Midcon and Inter-Rock held a 1.875% interest in a farmout of 159,579 gross acres of permit at Middle Fiord (See Map #1) on the west side of Axel Heiberg Island. During the past winter a farmee group which included Pan Arctic Oils Ltd., Canadian Reserve Oil and Gas, Sun Oil, Cities Service, Getty Oil and Yellowknife Bear Mines Limited drilled a wildcat well on this permit block which unfortunately failed to find oil or gas in commercial quantities. The drilling of this well did however earn us an interest in the permit block and generated drilling credits to keep our other permits in this area in good standing.

GAS PRODUCTION OPERATIONS

Midcon Oil & Gas Limited and Pembina Pipe Lines Ltd. each own a 50% interest in South Alberta Pipe Lines Ltd. South Alberta Pipe Lines gathers and compresses natural gas from Midcon and Pembina Leases in the Etzikom and Medicine Hat areas of South Eastern Alberta and delivers it to the Western Co-operative Fertilizers Limited, fertilizer manufacturing plant in Medicine Hat and under a separate contract to the City of Medicine Hat.

The total remaining recoverable natural gas reserves owned by Midcon in the area covered by Map #2 as of January 1, 1974 were estimated as follows:

<u>Field</u>	<u>Midcon Shares of Reserves</u>
Etzikom	4.181 B.C.F.
7 Persons Creek Unit	53.060 B.C.F.
Crowfoot Area	4.397 B.C.F.
Total	<u>61.638 Billion Cubic Feet.</u>

In addition, Midcon has under contract a further 5.100 B.C.F. of gas reserves from the Delta area from which we have been producing and re-selling natural gas.

MIDCON OIL & GAS LIMITED

For the year ended March 31, 1974 the Midcon share of natural gas sales to Western Co-operative Fertilizers (at 17¢/M.C.F.) and to the City of Medicine Hat (at 11.5¢/M.C.F.) totaled 1,805,813 M.C.F. or an average of 4,947,433 cubic feet per day at an average price of 14.95¢ M.C.F. This was a decline in annual gas sales of about 6¼% from the previous fiscal year.

The average prices paid for natural gas in Alberta have escalated sharply during the past year. Inter-Rock Oil Co. of Canada Limited (a Midcon subsidiary) recently obtained a price increase from the present 26¢/M.C.F. level to 60¢/M.C.F. (effective November 1, 1974) on gas Inter-Rock sells to Trans Canada Pipe Lines Ltd. from the Nevis and Erskine Fields as the result of an Arbitration Board finding pursuant to a price renegotiation clause in the Inter-Rock Trans Canada gas sales contract. Pan Alberta Gas is now offering to contract for new gas reserves in the Medicine Hat area for 65¢/M.C.F. with an increase to 75¢/M.C.F. next year.

Unfortunately neither of our gas contracts contains a price renegotiation clause, however, both the City of Medicine Hat and the Western Co-operative Fertilizer Plant have requested us to increase gas deliveries very significantly this year. In both cases we have advised them that we have substantial undeveloped gas reserves available but that we cannot justify any further development drilling at present contract gas prices. Further development drilling must be started this summer if present gas delivery volumes are to be maintained or increased.

Both customers urgently require additional gas supplies which we could provide, but at present gas prices we find it uneconomic to develop additional capacity. It is our hope that both the City of Medicine Hat and the Western Co-operative Fertilizer plant will voluntarily re-negotiate the prices of our contracts to a competitive level.

The Alberta Provincial Government introduced a much higher crown royalty on Natural Gas production this year which moves from a minimum 22% (at 26¢ per M.C.F. and less) to 45.42% at \$1.00/M.C.F. This compares to the old maximum 1/6 royalty rate. Even at this new rate of royalty however, Midcon would receive 41.28¢/M.C.F. net after paying a 36.49% royalty on 65¢/M.C.F. gas for example. Thus the effective return to Midcon after royalty and production and operating expenses would increase from our present 10¢/M.C.F. to about 30¢/M.C.F. if we could get our contract gas price up to 65¢/M.C.F.

INTER-ROCK OIL CO. OF CANADA LIMITED

Midcon owns over 50% of the common stock of Inter-Rock and the enclosed financial statements are a consolidation of both companies. The northern holdings of Inter-Rock have been detailed previously in this report.

Inter-Rock owns a 0.28363% interest in the Nevis Gas Field. Inter-Rock has recently re-negotiated its gas sales contract with Trans-Canada Pipelines and effective November 1, 1974, the sales price of Inter-Rock Nevis Gas will increase from the present 26.0¢/M.C.F. to 60¢/M.C.F. The new contract also provides for price re-negotiation November 1, 1975, and at two-year intervals thereafter. The Nevis operators committee of the Nevis gas processing plant in which Inter-Rock owns a 0.3528% interest has now installed deep cut facilities to remove butane and propane from the Nevis gas. This

facility went into operation in September 1973 and the sale of this butane and propane will further increase Inter-Rock production revenue.

Inter-Rock also owns a 2.08333% interest in the Buffalo Lake Oilfield which is operated by the Hunt Oil Company and a 12½% interest in seven D-3 oil wells operated by Gulf Oil Canada Limited in the Erskine Oilfield. This oil production had the benefit of a \$2.70 per barrel gross increase in price effective April 1, 1974 which after deduction of the 65% Alberta provincial royalty on this increase will net Inter-Rock a 95.4¢ per bbl price increase for this oil production. If the recently proposed Federal Budget is implemented however, federal tax increases will more than wipe out this net price increase and in fact will reduce Inter-Rock oil production income to about half as much per barrel as it earned in 1972 before any of the recent price increases for crude oil.

It is essential for the future of the Canadian Oil Industry that the present confrontation between the Provinces and Federal Government all of whom appear determined to obtain the lion's share of petroleum industry tax revenue be resolved in the near future. If it is not, Canada will probably be deficient in crude oil production in five years. With the long lead time and high cost required to establish new production, governments should be encouraging rather than discouraging exploration.

Respectfully submitted,

On behalf of the Board of Directors

J. DOUGLAS STREIT,
President.

June 25, 1974

Consolidated Balance Sheet

(with comparative figures)

ASSETS

CURRENT ASSETS	1974	1973
Bank Balances (including interest bearing deposits (1974 \$318,148.19; 1973 \$93,324.65)	\$ 335,786.22	\$ 114,197.05
Accounts Receivable	34,344.67	38,959.62
Marketable Securities at cost (Market Value (1974 \$378,250.00; 1973 \$280,800.00)	322,981.47	274,583.15
Accrued Interest Receivable	11,530.94	12,489.97
Prepaid Expenses	3,482.21	316.44
	708,125.51	440,546.23
 INVESTMENTS		
South Alberta Pipe Lines Limited — Shares and Debentures at cost (Note 2)	489,500.00	525,500.00
Northwest Nitro-Chemicals Limited — Shares and Debentures at cost (Note 4)	1.00	14,469.53
Other Shares at cost less amount written off	6,010.75	6,010.75
	495,511.75	545,980.28
 PROPERTY, PLANT AND EQUIPMENT AT COST (Note 3)		
Interest in Petroleum and Natural Gas Leases and Rights	1,111,251.10	1,113,001.10
Producing Well Costs and Production Equipment	723,394.58	727,918.25
Capped Gas Well	5,789.82	5,789.82
Furniture, Equipment and Automobile	10,977.18	10,977.18
Leasehold Improvements	1,851,412.68	1,863,439.44
	474,467.91	434,540.25
Accumulated Depreciation, Depletion and Amortization	1,376,944.77	1,428,899.19
 OTHER		
Deposits re performance of work (Note 5)	22,734.20	90,247.28
	\$2,603,316.23	\$2,505,672.98

To the Shareholders,
MIDCON OIL & GAS LIMITED

We have examined the consolidated balance sheet of Midcon Oil & Gas Limited as at March 31, 1974 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial posi-

AUDITORS

MIDCON OIL & GAS LIMITED
(Incorporated under the Laws of the Province of Alberta)

et - as at March 31, 1974
(as at March 31, 1973)

LIABILITIES

CURRENT LIABILITIES	1974	1973
Accounts Payable and Accrued Charges	\$ 4,371.43	\$ 33,185.20
Deferred Income Taxes	491,060.96	440,873.99
MINORITY INTEREST	85,936.39	78,009.58

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
AUTHORIZED		
5,000,000 Common Shares No Par Value		
ISSUED FULLY PAID		
4,300,000 Shares	3,353,505.43	3,353,505.43
DEFICIT—Per Schedule	1,331,557.98	1,399,901.22
	<u>2,021,947.45</u>	<u>1,953,604.21</u>

Approved on behalf of the Board:

J. DOUGLAS STREIT, Director

W. E. REARDEN, Director

(See the accompanying Notes to the Financial Statements)

<u>\$2,603,316.23</u>	<u>\$2,505,672.98</u>
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REPORT

tion of the companies as at March 31, 1974, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change referred to in Note 1 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

June 25, 1974.

McCORMACK, PARKER AND HESTER,
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED MARCH 31, 1974

(with comparative figures for the year 1973)

	1974	1973
Gross Oil and Gas Revenue	\$ 351,878.71	\$ 344,206.07
Deduct Royalties	<u>29,270.95</u>	<u>26,850.18</u>
	322,607.76	317,355.89
Well Supervision	6,600.00	6,300.00
	<u>329,207.76</u>	<u>323,655.89</u>
Deductions		
Production, Processing and Transportation costs	119,680.39	119,051.36
Dry Hole Costs	44,264.06	
Exploration Expenses	2,206.49	10,257.18
General and Administrative Expenses	<u>53,220.69</u>	<u>50,070.83</u>
	219,371.63	179,379.37
Operating Profit	<u>109,836.13</u>	<u>144,276.52</u>
Other Income		
Interest Earned	36,565.56	34,766.06
Dividends Received	6,400.00	3,416.00
Profit on Sale of Interests in Leases		1,500.00
Profit on Sale of Fixed Assets		1,316.08
Profit on Redemption of Investments	<u>19,531.47</u>	<u>2,250.00</u>
	62,497.03	43,248.14
	<u>172,333.16</u>	<u>187,524.66</u>
Other Deductions		
Depreciation, Depletion and Amortization	45,680.75	48,858.70
Advances to Wholly-Owned Subsidiary		
Written Off		6.75
Income Applicable to Minority Interests	<u>8,122.20</u>	<u>4,391.82</u>
	53,802.95	53,257.27
Income before Income Taxes	<u>118,530.21</u>	<u>134,267.39</u>
Provision for Income Taxes — Deferred (Note 1)	50,186.97	66,829.56
Net Income for the Year	<u>\$ 68,343.24</u>	<u>\$ 67,437.83</u>
Earnings per Share016	.015

(See the accompanying Notes to the Financial Statements)

CONSOLIDATED STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES**FOR THE YEAR ENDED MARCH 31, 1974**

(with comparative figures for the year 1973)

	1974	1973
Head Office Services and Rent	\$12,794.71	\$12,767.69
Salaries	2,400.00	5,250.00
Canada Pension Plan	53.55	96.30
Unemployment Insurance	24.54	23.97
Directors' Fees	2,300.00	3,500.00
Secretarial Fees and Services	15,223.50	11,085.40
Telephone and Telegraph	1,159.19	1,107.87
Travelling Expense	277.04	
Legal and Audit Fees	5,975.00	4,820.00
Reports to Shareholders	4,040.48	3,813.06
Share Certificates	345.76	
Transfer Agents' Fees and Expenses	5,351.56	5,361.75
Miscellaneous	3,238.42	2,225.09
Bank Charges	36.94	19.70
	<u>\$53,220.69</u>	<u>\$50,070.83</u>

CONSOLIDATED STATEMENT OF DEFICIT**FOR THE YEAR ENDED MARCH 31, 1974**

(with comparative figures for the year 1973)

	1974	1973
Deficit, beginning of the Year		
As previously reported	\$ 990,512.88	\$1,120,953.76
Adjustment of Prior Years' Deferred Income Taxes (Note 1)	<u>409,388.34</u>	<u>346,385.29</u>
As restated	1,399,901.22	1,467,339.05
Deduct		
Net Income for the Year	<u>68,343.24</u>	<u>67,437.83</u>
Deficit, end of the Year	<u>\$1,331,557.98</u>	<u>\$1,399,901.22</u>

(See the accompanying Notes to the Financial Statements)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED MARCH 31, 1974

(with comparative figures for the year 1973)

Source of Funds	1974	1973
Operations		
Net Income for the Year	\$ 68,343.24	\$ 67,437.83
Items not involving a current outlay of funds—		
Provision for Income Taxes — Deferred	50,186.97	66,829.56
Depreciation, Depletion and Amortization	45,680.75	48,858.70
Interest in Petroleum and Natural Gas Leases and Rights Written Off	1,750.00	500.00
Well Development Costs Written Off	23,957.42	
	189,918.38	183,626.09
Decrease in Deposits	67,513.08	4,537.92
Sale of Fixed Assets less Profit on Sale included in Statement of Income		2,005.72
Redemption of Investments less Profit on Redemption included in Statement of Income	50,468.53	20,250.00
Profit of Subsidiary applicable to Minority Interest	8,122.20	4,391.82
	316,022.19	214,811.55
Application of Funds		
Purchase of Interest in Gas Gathering and Processing Facilities	5,724.95	11,813.30
Well Development and Equipment Expenditures	13,162.25	92,125.00
Purchase of Other Capital Assets	741.94	6,875.85
	19,629.14	110,814.15
Increase in Working Capital	296,393.05	103,997.40
Working Capital, beginning of the year	407,361.03	303,363.63
Working Capital, end of the year	\$703,754.08	\$407,361.03

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT MARCH 31, 1974

Note 1: Change in Accounting Practice

The company and its subsidiary adopted the generally accepted accounting principle of calculating income taxes on the deferred income tax basis. The accumulated total of such deferred income tax adjustments has been recorded by adjustments to "Deficit". The 1973 figures in the financial statement have been restated and are shown as though the adjustment had been made at the beginning of the 1973 year.

Note 2: Consolidation Policy

The consolidated financial statements include the results of operations for the 1974 year and the financial position as at March 31, 1974 of Midcon Oil & Gas Limited and Inter-Rock Oil Co. of Canada Limited. As at March 31, 1974 the company's interest in Inter-Rock was 52.21% of the voting stock of that company.

Midcon Oil & Gas Limited owns 50% of the issued and outstanding common shares of South Alberta Pipe Lines Limited which owns and operates a gas pipeline in the Medicine Hat area of Alberta. The company also owns 50% of the issued and outstanding 5% First Mortgage Redeemable Sinking Fund Bonds of that company of which \$40,000.00 were redeemed in July, 1973. Repayment of the balance of the principal of these bonds, which was due on May 1, 1966 has been postponed with the consent of the bondholders, Pembina Pipe Lines Limited and Midcon Oil & Gas Limited. At March 31, 1974 the company's share of the accumulated deficits of South Alberta Pipe Lines Limited based on the audited financial statements of the company amounted to \$145,602.00 and its share of the income for the year ended March 31, 1974 amounted to \$6,506.50. It is the policy of the company not to take this share of the deficit, which exceeds its investment in the common shares of South Alberta Pipe Lines Limited by \$65,602.00, into account in the books.

Note 3: Accounting Policies

The company follows the practice of charging exploration expenses, non-productive development expenses and the carrying charges of its properties to income as such costs are incurred. Property acquisition costs are capitalized. The costs of drilling productive wells are capitalized and the cost of drilling unproductive wells are charged to income when the wells are determined to be dry. Depletion and amortization of producing oil and gas lands and well costs and production equipment is determined on the unit of production method. Depreciation of other plant and equipment is based on the estimated service lives of the assets calculated on the diminishing balance method.

Note 4:

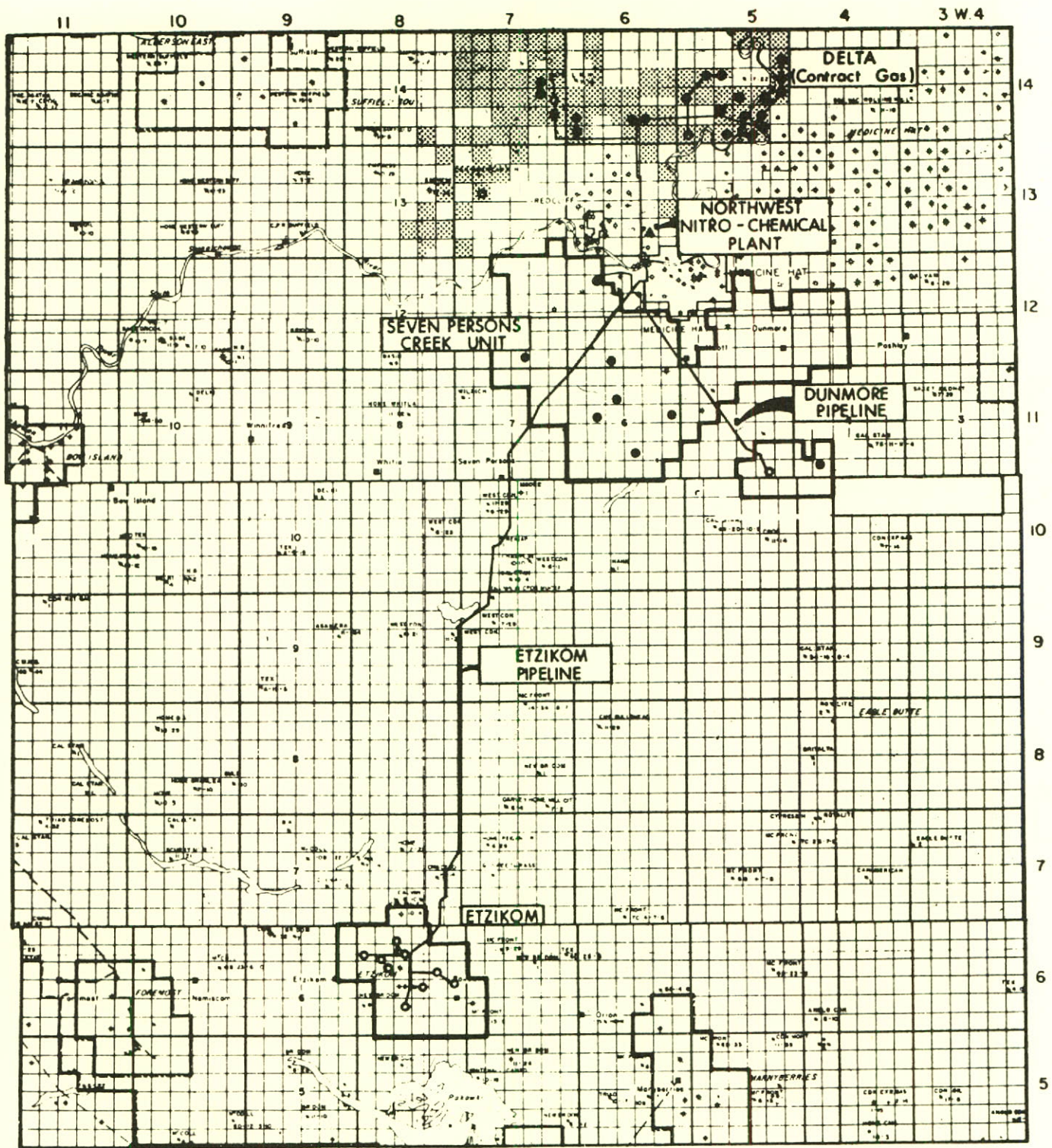
The company owns 21,500 common shares of Northwest Nitro-Chemicals Limited which company is controlled by Commercial Solvents Corporation. The investment is carried at cost which is not intended to reflect present or future values. The securities are not listed on a stock exchange and the market is therefore restricted to quotations in respect to unlisted securities which are not considered to be representative of market values.

Note 5:

The companies have made deposits of \$19,229.20 with the Government of Canada to guaranty the performance of work in connection with exploratory permits for gas and oil. The companies also have drilling deposits of \$3,505.00 with the Province of Alberta.

Note 6:

The aggregate direct remuneration paid to the directors and the senior officers of the company and its subsidiary in the year ended March 31, 1974 was \$4,700.00.



MAP 2

MIDCON HOLDINGS

MIDCON OIL & GAS LIMITED

OWNED INTERESTS

ETZIKOM PIPELINE	50%
DUNMORE PIPELINE	50%
ETZIKOM GAS FIELD	40%
SEVEN PERSONS CREEK UNIT ..	42.48%

HOLDINGS IN

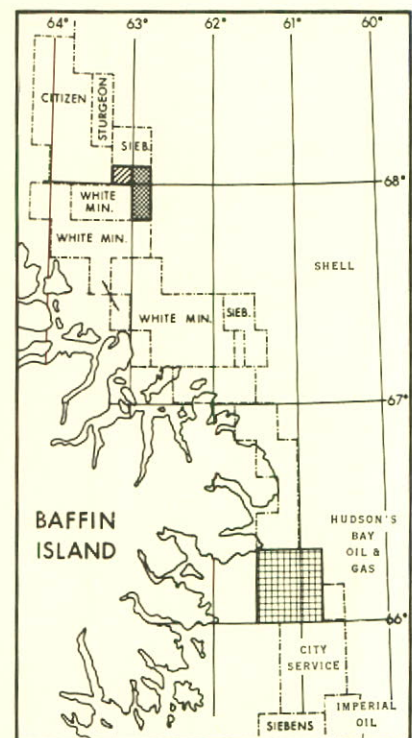
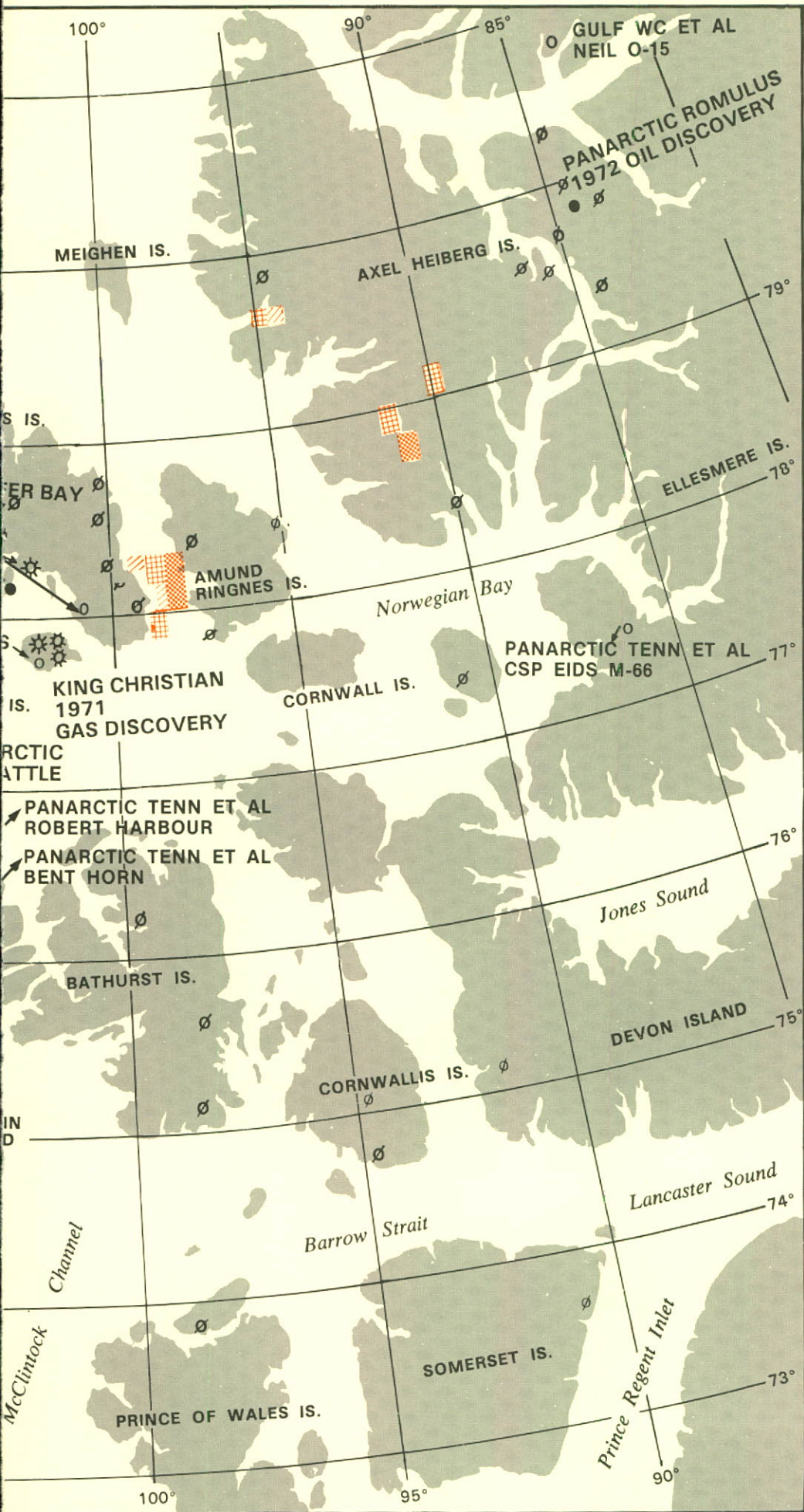
ETZIKOM-MEDICINE HAT AREA

CONTRACT INTEREST

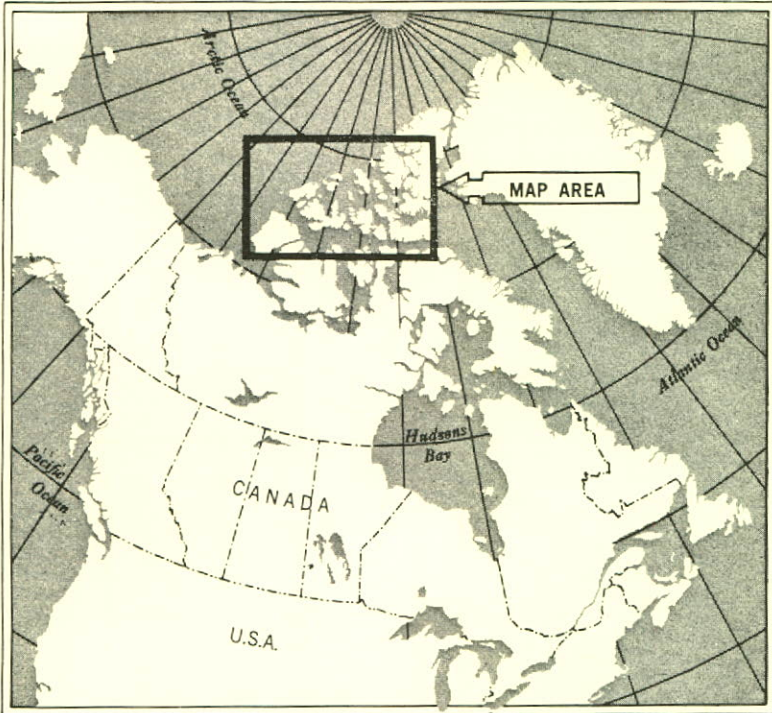
DELTA GAS CONTRACT	50%
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*See inside this fold for map
of gas and oil locations.*



MAP 1



-  MIDCON PERMITS
 -  INTER - ROCK
 -  YELLOWKNIFE BEAR
- Arctic Ocean*

