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MIDCON OIL & GAS
LIMITED
1980 ANNUAL REPORT



MIDCON OIL & GAS LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TAKE NOTICE that the annual meeting of shareholders of MIDCON OIL & GAS LIMITED (the "Corporation") will be held in the York Room at The Sheraton Centre, 123 Queen Street West, Toronto, Ontario, on Monday, the 27th day of October, 1980 at the hour of 12:00 noon, Toronto time, for the following purposes:

1. to receive and consider the Annual Report including the report of the directors and the financial statements of the Corporation for the fiscal year ended June 30, 1980 together with the report of the auditors thereon,
2. to elect directors,
3. to appoint auditors and authorize the directors to fix their remuneration, and
4. to transact all other business which may properly come before the meeting or any adjournment or adjournments thereof.

A copy of the above mentioned Annual Report and an Information Circular are enclosed. Shareholders who are unable to be present in person are requested to fill in, sign, date and return the accompanying form of proxy in the envelope provided for that purpose.

DATED at Toronto, Ontario, this 19th day of September, 1980.

T. P. FISCHER
Secretary-Treasurer

MIDCON OIL & GAS LIMITED

INFORMATION CIRCULAR

as of September 19, 1980

SOLICITATION OF PROXIES

This information circular is furnished in connection with THE SOLICITATION BY THE MANAGEMENT OF MIDCON OIL & GAS LIMITED (the "Corporation") of proxies to be used at the meeting of the shareholders of the Corporation (and any and all adjournments thereof) to be held at the time and place and for the purposes set forth in the accompanying notice of the meeting. The solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of such solicitation by management will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

THE PERSONS DESIGNATED IN THE ACCOMPANYING FORM OF PROXY ARE NAMED BY MANAGEMENT. A SHAREHOLDER HAS THE RIGHT TO APPOINT SOME OTHER PERSON, WHO NEED NOT BE A SHAREHOLDER, TO ATTEND AND ACT FOR HIM AND ON HIS BEHALF AT THE MEETING AND HE MAY EXERCISE THIS RIGHT BY INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY AND, IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE CORPORATION OR TO THE CHAIRMAN OF THE MEETING PRIOR TO VOTING.

A shareholder who has given a proxy may revoke it either (a) by completing a proxy bearing a later date and depositing it with the Corporation not later than the last business day preceding the day of the meeting or with the chairman of such meeting on the day of the meeting, or (b) by completing written notice of revocation, which must be executed by the shareholder or by his attorney authorized in writing and depositing the notice at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting or with the chairman of the meeting on the day of the meeting. A proxy may only be revoked with respect to matters that have not been acted on prior to revocation.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The only class of voting securities of the Corporation outstanding and entitled to vote at the meeting are common shares. The Corporation has outstanding 4,300,000 common shares, each of which is entitled to 1 vote.

No record date has been fixed for the determination of the shareholders who may vote at the meeting. Accordingly shareholders of record on the list prepared pursuant to the Canada Business Corporations Act as at the time of the meeting shall be entitled to vote thereat.

To the knowledge of the directors and officers of the Corporation, no person beneficially owns, directly or indirectly, or exercises control or direction over, voting securities carrying more than 10% of the voting rights attached to all shares of the Corporation other than Yellowknife Bear Mines Limited, 360 Bay Street, Toronto, Ontario which owns of record and beneficially 3,173,216 (73.8%) of the outstanding common shares of the Corporation. Yellowknife Bear Mines Limited is a public company, the common shares of which are listed on The Toronto Stock Exchange. To the knowledge of the directors and officers of the Corporation there is no person or company who beneficially owns, directly or indirectly, or exercises control or direction over, voting securities of Yellowknife Bear Mines Limited which carry more than 10% of the voting rights attached to all shares of that company.

No voting securities carrying more than 10% of the voting rights attached to all voting securities of the Corporation or of the subsidiary of the Corporation are beneficially owned, directly or indirectly, or controlled or directed by any proposed director and his associates or affiliates.

ELECTION OF DIRECTORS

The board of directors of the Corporation presently consists of 5 directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election, as directors, of the nominees whose names are set forth below unless such authority is withheld. 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 persons named in the accompanying form of proxy reserve that right to vote for another nominee in their discretion unless authority to vote in the election of directors is withheld. Each director elected will hold office until the next annual meeting or until his successor is otherwise duly elected in accordance with the by-laws of the Corporation.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as directors, all other positions and offices with the Corporation and any of its significant affiliates now held by them, their principal occupations or employments, the period or periods during which they served as directors of the Corporation and the approximate number of shares of the Corporation and of Yellowknife Bear Mines Limited and Inter-Rock Oil Co. of Canada Limited beneficially owned, directly or indirectly, or over which control or direction is exercised by each of them.

<u>Name and Principal Occupation</u>	<u>Positions and Offices</u>	<u>Director of the Corporation during the following period or periods</u>	<u>Shares of Yellowknife Bear Mines Limited</u>	<u>Shares of Midcon Oil & Gas Limited</u>	<u>Shares of Inter-Rock Oil Co. of Canada Limited</u>
J. Douglas Streit, P.Eng., Geologist, President and General Manager of Yellowknife Bear Mines Limited	Director, Director of Inter-Rock Oil Co. of Canada Limited	July, 1957	50,000	125,853	1
Robert G. Price, Petroleum Engineer Vice-President and Exploration Manager of Yellowknife Bear Mines Limited	Vice-President, Director and Vice-President of Inter-Rock Oil Co. of Canada Limited	July, 1968	1	10	1
*William E. Rearden, Secretary-Treasurer, The J. Bradley Streit Corporation		July, 1967	3,500	21,000	nil
*C. William Streit Company Executive	President and a Director of Inter-Rock Oil Co. of Canada Limited	July, 1975	69	32,600	121
*H. C. Kerr, Q.C., Lawyer		June, 1973	nil	nil	nil

NOTE

The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective directors individually.

5,000 shares registered in the name of Mr. Kerr are owned by a corporation which is owned by his family.

All nominees have held the principal occupations indicated for more than 5 years.

*Indicates a member of the audit committee. There is no executive committee of the board of directors.

REMUNERATION OF MANAGEMENT

- The aggregate remuneration paid or payable by the Corporation and its subsidiary during the Corporation's last completed financial year to directors of the Corporation in their capacity as directors of the Corporation and its subsidiary was \$9,500. The aggregate remuneration paid or payable by the Corporation and its subsidiary during the Corporation's last completed financial year to officers of the Corporation in their capacity as officers or employees of the Corporation and its subsidiary who received an aggregate remuneration per person in excess of \$40,000 in that year was nil.

NATURE OF REMUNERATION EARNED

REMUNERATION OF DIRECTORS	Directors' fees	Salaries	Bonuses	Non-accountable expense all	Estimated Pension Benefits	Others	Total
(A) Number of directors: 5							
(B) <i>Body Corporate incurring the expense</i>							
Midcon Oil & Gas Limited	\$3,750	\$10,000		nil	nil	nil	\$13,750
Inter-Rock Oil Co. of Canada Limited	5,750	5,000		nil	nil	nil	10,750
REMUNERATION OF OFFICERS							
(A) Number of officers: 3							
(B) <i>Body Corporate incurring the expense</i>							
Midcon Oil & Gas Limited		nil		nil	nil	nil	nil
Inter-Rock Oil Co. of Canada Limited		12,000		nil	nil	nil	12,000
TOTALS	\$9,500	\$27,000		nil	nil	nil	\$36,500

2. The estimated aggregate cost to the Corporation and its subsidiary in or in respect of the last completed financial year of all pension benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age to the persons mentioned in paragraph 1 was nil.
3. The aggregate of all remuneration payments (other than payments of the type reported under paragraph 1 or 2) made in or in respect of the Corporation's last completed financial year by the Corporation or its subsidiary pursuant to an existing plan to each person referred to in paragraph 1 was nil and, the amount proposed to be made in the future is nil, excluding payments to be made for, or benefits to be received from, the Canada Pension Plan or similar government plan or under a pension or retirement plan of the Corporation or its subsidiary.
4. There are no options to purchase securities of the Corporation or its subsidiary that, since the commencement of the Corporation's last completed financial year, were granted to or exercised by any of the persons mentioned in paragraph 1.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or officer of the Corporation or its subsidiary, no proposed nominee for election as a director of the Corporation, and none of their respective associates or affiliates is or has been indebted to the Corporation or its subsidiary at any time since the beginning of the last completed financial year of the Corporation.

APPOINTMENT OF AUDITORS

Unless such authority is withheld the persons named in the accompanying form of proxy intend to vote for the appointment of Messrs. McCormack Parker, Chartered Accountants, Toronto, as auditors of the Corporation and the authorization of the directors to fix their remuneration. They or their predecessor firms have been auditors of the Corporation for more than the past 5 years.

MANAGEMENT CONTRACTS

During the last completed fiscal year the Corporation and its subsidiary paid \$17,042 for head office rental and secretarial fees to The J. Bradley Streit Corporation, Suite 1000, 360 Bay Street, Toronto, Ontario, a private company of which J. Douglas Streit, C. William Streit and W. E. Rearden (3 of the directors of the Corporation) are officers, directors and shareholders.

GENERAL

On any ballot that may be called for with respect to the election of directors or the appointment of auditors and the authorization of the directors to fix their remuneration, shares represented by each properly executed proxy appointing the persons named by management in the accompanying form of proxy **WILL BE VOTED FOR THE ELECTION OF DIRECTORS AND FOR THE APPOINTMENT OF AUDITORS AND THE AUTHORIZATION OF THE DIRECTORS TO FIX THEIR REMUNERATION AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR UNLESS THE SPECIFICATIONS IN THE PROXY DIRECT THE SHARES TO BE WITHHELD FROM VOTING IN CONNECTION THEREWITH.**

The accompanying form of proxy, when properly signed, confers discretionary authority with respect to amendments or variations to matters identified in the accompanying notice of the meeting and other matters that may properly come before the meeting. The management of the Corporation presently knows of no such amendments, variations or other matters to come before the meeting.

The contents of this circular and the sending of it to each director and shareholder of the Corporation and to the auditors of the Corporation have been approved by the directors of the Corporation.

J. DOUGLAS STREIT
President

MIDCON OIL & GAS LIMITED

OFFICERS AND DIRECTORS

OFFICERS	J. DOUGLAS STREIT <i>President</i> R. G. PRICE <i>Vice-President</i> T. P. FISCHER <i>Secretary-Treasurer</i>
DIRECTORS	H. C. KERR, Q.C. <i>Toronto</i> C. W. STREIT <i>Toronto</i> R. G. PRICE <i>Calgary</i> W. E. REARDEN <i>Toronto</i> J. DOUGLAS STREIT <i>Toronto</i>
AUDITORS	MCCORMACK, PARKER <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>
EXPLORATION OFFICE	717 - 7TH AVENUE S.W. <i>Calgary, Alberta T2P 0Z3</i>
EXECUTIVE OFFICE	ROOM 1000, 360 BAY ST. <i>Toronto, Ontario M5H 2W3</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 June 30th, 1980.

FINANCIAL

During the fiscal year ending June 30, 1980 Midcon's Net Income increased to \$1,175,893.00 (compared to \$557,801.00 for the previous year) and cash flow amounted to \$1,380,022.00. This represents a cash flow in excess of 30 cents per share.

OPERATING REPORT

The principal assets of Midcon are located in Southeastern Alberta in the area covered by Map #1 and consist of the following:

- 1) A 50% interest in South Alberta Pipe Lines Ltd.
- 2) Remaining proven recoverable gross pipeline natural gas reserves owned by Midcon estimated to be 1,602,200 cubic metres or 45.14 billion cubic feet at existing average Alberta natural gas prices.

SOUTH ALBERTA PIPE LINES LTD.

Midcon owns a 50% interest in this gas transmission systems which consists of a 72.5 Kilometre long 27 cm. diameter main line from Etzikom to Medicine Hat plus a 20 cm. main lateral in the Medicine Hat gasfield, plus a number of smaller gathering lines. In addition to carrying gas produced by Midcon, this pipeline acts as a contract carrier for gas produced by other operators in this South East Alberta area.

South Alberta delivers low pressure gas to the City of Medicine Hat and high pressure gas to the Alberta Gas Truck Line system and to fertilizer plants at Medicine Hat. Throughputs for the six month period ended June 30, 1980 were 1,739,000 cubic metres (61,724,066 cubic feet) per day an increase of 27% over that of the year ended December 31, 1979. As a result of these increased throughputs there was no increase in the pipeline tariff but the increased volume significantly increased South Alberta pipeline revenues.

GAS PRODUCTION OPERATIONS

Midcon sells natural gas under two long term contracts to the City of Medicine Hat (until 1985) and to Western Co-operative Fertilizers Ltd. (until 1987). For the 12 month period ended June 30, 1980 Midcon's total gas sales averaged about 185,412 cubic metres (6,581,000 cubic feet) per day. Unfortunately these contracts contain no significant price escalation clauses, so our average gas selling price for the past year was only 3.336 cents per cubic metre (or \$1.18 per M.C.F.) and this price included a gas export bonus which now averages about 92 cents per gigajoule. This sales price compares to an average present Alberta gas well head price of about 8.138 cents per cubic metre (or \$2.89 per M.C.F.).

The Canadian Federal Government has indicated it may place an export tax on foreign sales of Canadian natural gas and the effect of such a tax would be to substantially reduce or eliminate the export bonus. This would of course seriously reduce Midcon gas production income. The Alberta Provincial Government is strongly opposing this gas export tax proposal.

In view of the threat of elimination of the export bonus Midcon cannot justify drilling more gas wells to maintain contract deliveries and in recent months deliveries to the City have fallen below minimum contract levels. We are using the prospect of decreasing gas deliveries to try to negotiate an increase in gas prices from our two major customers.

MIDCON OIL & GAS LIMITED

EXPLORATION

Midcon Oil & Gas entered into a joint venture participation agreement dated March 13, 1980 with Allaro Resources Ltd., under which Midcon will contribute \$250,000 per year each year for a three year period to an oil and gas exploration and acquisition program to be managed by Allaro.

Mr. Alastair H. Ross, who was formerly President and Chief Executive Officer of both Pembina Pipe Lines Ltd. and Western Decalta Petroleum Limited left that position to organize and manage Allaro and now has commitments of about 6 million dollars per year for a three year period to this Allaro program. Allaro has already acquired several land interests in Alberta, but it is too early to highlight specific projects.

INTER-ROCK OIL CO. OF CANADA LIMITED

Midcon owns a 59.07% interest in this Company which is operated by Midcon Management.

Inter-Rock owns a 0.28363% interest in the unitized Nevis gas field and sells its Nevis natural gas production to Trans Canada PipeLines Ltd. In addition, Inter-Rock owns a 2.0833% interest in the unitized Buffalo Lake Oilfield and a 12^{1/2}% interest in seven D-3 oilwells in the Erskine oilfield.

Inter-Rock holds an 11.11% interest in the Hunt-Inter-Rock 3-27 capped D-3 gas well located between the Buffalo Lake Oilfield and the Nevis Gas field. A gas pipeline from Buffalo Lake to Nevis has now been completed and this 3-27 gas well is scheduled to start selling its gas via this pipeline in November, 1980. We have signed a sales contract for this gas with Trans Canada PipeLines Limited.

Respectfully submitted,

On behalf of the Board of Directors,

Toronto, Ontario.
September 8, 1980.

J. DOUGLAS STREIT,
President.

SI CONVERSION TABLE

To convert from	To	Multiply by
Cubic metre (m ³)	barrel (bbl)	6.293
Thousands of cubic meters (10 ³ m ³)	thousand cubic feet (mcf)	35.494
Tonne (t)	long ton (lt)	0.984
Metre (m)	foot (ft)	3.281
Kilometre (km)	mile (mi)	0.621
Hectare (ha)	acre (ac)	2.471

Examples:

10³m³ = one thousand cubic metres

10⁶m³ = one million cubic metres

10⁹m³ = one billion cubic metres

A. G. T. L.
LINE

1.5 MILE
EXTENSION







5.5 MILE
LOOP

CITY OF
MEDICINE HAT

GREAT BASINS
LATERAL LINE

DUNMORE
LINE

LEGEND

-  Pembina/Midcon
-  Telstar
-  Bow Valley
-  Ashland
-  J. S. E.
-  Great Basins

TELSTAR
TIE-IN

MURRAY LAKE
LICENCE

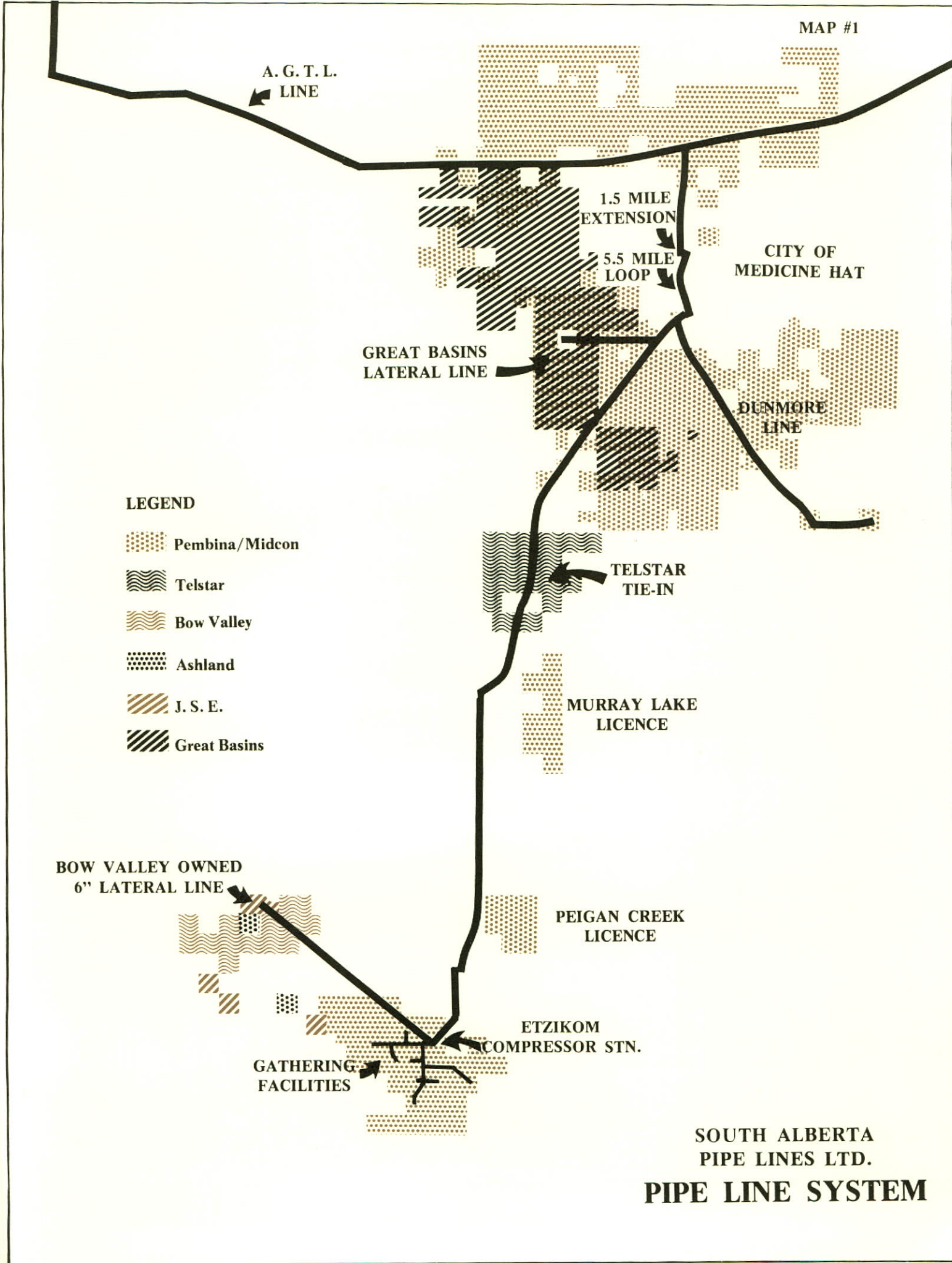
BOW VALLEY OWNED
6" LATERAL LINE

PEIGAN CREEK
LICENCE

ETZIKOM
COMPRESSOR STN.

GATHERING
FACILITIES

SOUTH ALBERTA
PIPE LINES LTD.
PIPE LINE SYSTEM



MIDCON OIL & GAS LIMITED

Consolidated Balance Sheet - as at June 30, 1980

ASSETS

	<u>1980</u>	<u>1979</u>
CURRENT ASSETS		
Bank Balances and Interest Bearing Term Deposits	\$1,645,880	\$1,071,657
Sundry Receivables and Prepayments	430,922	208,819
	<u>2,076,802</u>	<u>1,280,476</u>
INVESTMENTS (Note 1)		
Yellowknife Bear Mines Limited — Shares at cost (Market value 1980, \$1,687,500; 1979, \$1,368,750)	507,747	507,747
South Alberta Pipelines Limited — Shares and Debentures on the Equity Basis	810,500	759,500
Other Shares — at Cost Less Amounts Written Off	<u>6,001</u>	<u>6,001</u>
	<u>1,324,248</u>	<u>1,273,248</u>
Advances on Account of Exploration Expenses	<u>62,500</u>	<u> </u>
Property, Plant and Equipment — at cost	3,144,157	3,074,807
Accumulated Depreciation, Depletion and Amortization	<u>936,538</u>	<u>860,811</u>
	<u>2,207,619</u>	<u>2,213,996</u>
OTHER ASSETS		
Deposits re: Performance of Work (Note 2)	<u>3,505</u>	<u>3,505</u>
	<u>\$5,674,674</u>	<u>\$4,771,225</u>

AUDITORS' REPORT

To the Shareholders,
MIDCON OIL & GAS LIMITED.

We have examined the consolidated balance sheet of Midcon Oil & Gas Limited and subsidiary company as at June 30, 1980 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

MIDCON OIL & GAS LIMITED

(Incorporated under the laws of Canada)

LIABILITIES

	<u>1980</u>	<u>1979</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Charges	\$ 100,524	\$ 37,860
Income Taxes Payable	<u>362,226</u>	<u>164,300</u>
	462,750	202,160
Deferred Revenue (Note 4)	<u>13,927</u>	
Deferred Income Taxes	<u>1,068,500</u>	<u>948,500</u>
Minority Interests	<u>187,477</u>	<u>209,438</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
AUTHORIZED		
5,000,000 Common Shares No Par Value		
ISSUED FULLY PAID		
4,300,000 Shares	3,353,505	3,353,505
Retained Earnings	<u>588,515</u>	<u>57,622</u>
	<u>3,942,020</u>	<u>3,411,127</u>
	<u>\$5,674,674</u>	<u>\$4,771,225</u>

Approved on behalf of the Board;

J. DOUGLAS STREIT, Director
WILLIAM E. REARDEN, Director

(See the accompanying notes to the financial statements.)

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1980 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McCORMACK, PARKER
Chartered Accountants

MIDCON OIL & GAS LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1980**

	<u>1980</u>	<u>1979</u>
Income		
Oil and Gas Revenue	\$2,574,307	\$1,388,986
Royalties	617,915	279,870
Production, Processing and Transportation Costs	289,773	265,381
Depreciation, Depletion and Amortization	<u>84,129</u>	<u>72,392</u>
	991,817	617,643
	<u>1,582,490</u>	<u>771,343</u>
Equity in Income of South Alberta Pipelines Limited	<u>126,000</u>	<u>77,334</u>
Other Income		
Dividends Received	12,000	12,000
Interest Earned	198,266	125,566
Profit on Sale of Fixed Asset	<u>2,602</u>	<u> </u>
	212,868	137,566
General and Administrative Expenses (Note 5)	<u>(134,114)</u>	<u>(131,859)</u>
Earnings before Income Taxes and Minority Interests	<u>1,787,244</u>	<u>854,384</u>
Current Income Taxes	442,500	164,300
Deferred Income Taxes	120,000	95,000
Minority Interest in Income of Subsidiary Company	<u>48,851</u>	<u>37,283</u>
	611,351	296,583
Net Earnings for the Year	1,175,893	557,801
Retained Earnings (Deficit) — beginning of the Year	<u>57,622</u>	<u>(70,179)</u>
	1,233,515	487,622
Dividends Paid	<u>645,000</u>	<u>430,000</u>
Retained Earnings — end of the Year	<u>\$ 588,515</u>	<u>\$ 57,622</u>
Earnings per Share		
Earnings per Share Before Deferred Income Taxes	30.1 cents	15.2 cents
Net Earnings per Share	27.3 cents	12.9 cents

(See the accompanying notes to the financial statements.)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 1980

	<u>1980</u>	<u>1979</u>
Source of Funds		
Funds from Operations*	\$1,302,873	\$ 685,142
Proceeds of Redemption of Investments	75,000	50,000
Sale of Fixed Asset (Book Value)	2,398	
Deferred Revenue	<u>13,927</u>	
	<u>1,394,198</u>	<u>735,142</u>
Use of Funds		
Advances on Account of Exploration Expenses	62,500	
Additions to Property, Plant and Equipment	80,150	5,471
Dividends	645,000	430,000
Dividends Paid to Minority Interests	<u>70,812</u>	<u>35,406</u>
	858,462	470,877
Increase in Working Capital	<u><u>535,736</u></u>	<u><u>264,265</u></u>
Working Capital Changes		
Increase in Current Assets		
Bank Balances and Interest Bearing Term Deposits	574,223	398,340
Sundry Receivables and Prepayments	<u>222,103</u>	<u>36,969</u>
	796,326	435,309
Deduct		
Increase in Current Liabilities		
Accounts Payable and Accrued Charges	62,664	6,744
Income Taxes Payable	<u>197,926</u>	<u>164,300</u>
	<u>260,590</u>	<u>171,044</u>
Increase in Working Capital	535,736	264,265
Working Capital, beginning of the Year	<u>1,078,316</u>	<u>814,051</u>
Working Capital, end of the Year	<u><u>\$1,614,052</u></u>	<u><u>\$1,078,316</u></u>

*Net income adjusted for charges or credits not affecting working capital.

(See the accompanying notes to the financial statements.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1980

1. Accounting Policies

Principles of Consolidation

The accounts of the company and its subsidiary, Inter-Rock Oil Co. of Canada Limited are included in the financial statements. At June 30, 1980 the company owned 59.07% of the voting stock of Inter-Rock.

Investments

The investment in the shares of Yellowknife Bear Mines Limited is classified as a long term investment and is carried at cost.

The company 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 holds 50% of the issued and outstanding 10¹/₂% Floating Charge Debenture due March 1, 1985 at a cost of \$375,000.00. This investment is accounted for on the equity basis. The interest of this company in the equity of South Alberta Pipe Lines Limited based on the interim financial statements of that company as at June 30, 1980 amounted to \$435,500.00.

Exploration and Development costs

Exploration expenditures, non-productive development expenses, dry-hole costs and the carrying charges on properties are charged to expense. Property acquisition costs are capitalized.

Depreciation, Depletion and Amortization

Capitalized costs of oil and gas properties, and well costs are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Depreciation of other plant and equipment is based on the estimated service lives of the assets. Depreciation on production equipment is calculated on the straight line method. Depreciation of other plant and equipment is calculated on the diminishing balance method.

Income Taxes

The company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of depreciation and other charges reflected in the statement of income rather than on the related amounts claimed in the company's tax returns.

2. The company has a drilling deposit of \$3,505.00 with the Province of Alberta.
3. The aggregate direct remuneration paid to the directors and the senior officers of the company and its subsidiary in the year ended June 30, 1980 was \$36,500.00.

4. Deferred Revenue

The company has received \$13,927 for gas which has not yet been delivered. The payor may take delivery of this prepaid gas at any time up to October 31, 1985. In the event the payor does not take delivery by that date, the company will be entitled to retain the funds.

5. General and administrative expenses include the following:

	1980	1979
Directors' Fees and Salaries	\$ 24,500	\$ 23,750
General and Office	12,887	13,035
Legal and Audit Fees	19,415	21,302
Rent and Office Services	18,260	14,945
Salaries and Fees — Management and Office	40,932	44,012
Shareholders' Reports and Expenses	9,931	5,944
Transfer and Registrar Expense	8,189	8,871
	\$134,114	\$131,859





