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Midcon Oil & Gas Limited

Annual Report 1984





MIDCON OIL & GAS LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TAKE NOTICE that the annual meeting of the shareholders of MIDCON OIL & GAS LIMITED (the "Corporation") will be held in the York Room, The Sheraton Centre, 123 Queen Street West, Toronto, Ontario on the 3rd day of October, 1984 at the hour of 11:00 a.m., Toronto time, for the following purposes

to receive and consider the Annual Report including the report of the directors and the consolidated financial statements of the Corporation for its most recent fiscal year together with the report of the auditors thereon,

to elect directors,

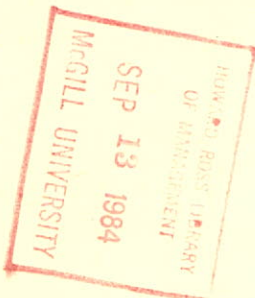
to appoint auditors and authorize the directors to fix their remuneration, and

to transact all other business which may properly come before the meeting and any and all adjournments thereof.

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

DATED at Toronto, Ontario, this 7th day of September, 1984.

T. P. FISCHER
Secretary-Treasurer



MIDCON OIL & GAS LIMITED

INFORMATION CIRCULAR

as of September 7, 1984

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 ENTITLED TO VOTE AT THE MEETING 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 ANY AND ALL ADJOURNMENTS THEREOF) AND HE MAY EXERCISE THIS RIGHT BY INSERTING THE NAME OF SUCH OTHER PERSON 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 an adjournment thereof, or (b) by completing a 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 an adjournment thereof, or with the chairman of the meeting on the day of the meeting or an adjournment thereof. A proxy may only be revoked with respect to matters that have not been acted on prior to revocation.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The only class of voting securities of the Corporation outstanding and entitled to be voted at the meeting are common shares. The Corporation has outstanding 4,241,800 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 as at the time of the meeting shall be entitled to vote thereat.

To the knowledge of the directors and senior officers of the Corporation, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, securities carrying more than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation entitled to be voted at the meeting other than the following:

<u>Name and municipal address</u>	<u>Type of ownership</u>	<u>Number of common shares owned</u>	<u>Percentage of common shares owned</u>
Yellowknife Bear Resources Inc. 20 Queen Street West Toronto, Ontario	of record and beneficially	3,173,216	74.8%

Yellowknife Bear Resources Inc. is a public company the common shares of which are listed on The Toronto Stock Exchange and in the NASDAQ National Market Quotations. 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 Resources Inc. carrying more than 10% of the voting rights attached to any class of voting securities of that company.

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

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MIDCON OIL & GAS LIMITED
FORM OF PROXY, SOLICITED BY MANAGEMENT, FOR THE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON OCTOBER 3, 1984
AND ANY AND ALL ADJOURNMENTS THEREOF

The undersigned shareholder hereby appoints J. Douglas Streit, or failing him, R. G. Price, or failing him, T. P. Fischer, or instead of any of them, as nominee of the undersigned, with full power of substitution, to attend, act and vote in accordance with the following specifications for and on behalf of the undersigned at the annual meeting of shareholders to be held on October 3, 1984 and any and all adjournments thereof and hereby revokes all proxies previously given in connection with the meeting. The undersigned specifies that the shares registered in the name of the undersigned shall be

VOTED WITHHELD FROM VOTING (OR IF NO SPECIFICATION IS MADE, VOTED) by the nominee in the election of directors,

VOTED WITHHELD FROM VOTING (OR IF NO SPECIFICATION IS MADE, VOTED) by the nominee in the appointment of auditors and the authorization of the directors to fix their remuneration, and

VOTED in the nominee's discretion with respect to amendments or variations to matters identified in the notice of the meeting and other matters that may properly come before the meeting and any and all adjournments thereof.

DATED this day of , 1984.

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 Signature of Shareholder

NOTES

(1) THE PERSONS DESIGNATED IN THE ACCOMPANYING FORM OF PROXY ARE NAMED BY MANAGEMENT. A SHAREHOLDER ENTITLED TO VOTE AT THE MEETING 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.

(2) This proxy must be executed by the shareholder or by the shareholder's attorney authorized in writing.

(3) If this form of proxy is not dated in the designated space, it is deemed to bear the date on which it was mailed to you.

(4) Please advise the Corporation of any change of your name or address.



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 the 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 major positions and offices with the Corporation and any of its significant affiliates now held by them, their principal occupations, businesses 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 Inter-Rock Oil Co. of Canada Limited and Yellowknife Bear Resources Inc. beneficially owned, directly or indirectly, or controlled or directed by each of them.

<i>Name and Principal Occupation</i>	<i>Positions and Offices</i>	<i>Director of the Corporation since</i>	<i>Shares of Yellowknife Bear</i>	<i>Shares of Midcon</i>	<i>Shares of Inter-Rock</i>
*H. C. Kerr, Q.C., Lawyer, Partner in McLean & Kerr	Director of Midcon	1973	1	5,001	1
Robert G. Price, Petroleum Engineer, Vice-President and Exploration Manager of Yellowknife Bear	Vice-President, Exploration Manager and Director of Yellowknife Bear, Vice-President and Director of Midcon and Inter-Rock	1968	1,001	10	1
*William E. Rearden, Company Executive	Director of Yellowknife Bear and Midcon	1967	3,500	16,000	Nil
*C. William Streit, Company Executive	Director of Midcon, President and Director of Inter-Rock	1957	19,069	18,000	121
J. Douglas Streit, P.Eng., Geologist, President and General Manager of Yellowknife Bear	President and Director of Yellowknife Bear and Midcon, Director of Inter-Rock	1957	50,000	125,853	1

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

*Indicates a member of the audit committee.

There is no executive committee of the board of directors.

DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION

NATURE OF REMUNERATION EARNED

	Directors' fees	Salaries	Bonuses	Non-accountable expense all	Cost of Estimated Pension Benefits	Others (Note 1)	Total
DIRECTORS (5) Paid by: the Corporation Inter-Rock	\$34,500 11,000						\$34,500 11,000
3 SENIOR OFFICERS: Paid by: the Corporation Inter-Rock		\$20,000 12,000					20,000 12,000
OFFICERS RECEIVING OVER \$40,000 (none)							
TOTALS (without duplication)	\$45,500	\$32,000	nil	nil	nil	nil	\$77,500

NOTE 1: This column sets out the aggregate of all other remuneration payments including deferred compensation benefits, retirement benefits or other benefits, except those paid or to be paid under a pension or retirement plan of the Corporation made in or in respect of the Corporation's last completed financial year by the Corporation pursuant to any existing plan to the directors and senior officers and the amount proposed to be made in the future by the Corporation pursuant to any existing plan to such persons.

No options to purchase securities of the Corporation were granted to or exercised by directors or officers of the Corporation since the commencement of the Corporation's last completed financial year.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or officer of the Corporation, 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 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 Hilborn Ellis Grant, 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 its last completed fiscal year the Corporation paid \$56,896 for head office services and rent to The J. Bradley Streit Corporation, 20 Queen Street West, Toronto, Ontario, M5H 3R3, a private company, the shareholders, directors and senior officers of which include J. Douglas Streit and C. William Streit (directors of the Corporation).

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 with respect to 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 and the sending of this circular 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



OFFICERS AND DIRECTORS

OFFICERS

J. DOUGLAS STREIT President
R. G. PRICE Vice-President
T. P. FISCHER Secretary-Treasurer

DIRECTORS

H. C. KERR, Q.C. Toronto
C. W. STREIT Toronto
R. G. PRICE Calgary
W. E. REARDEN Toronto
J. DOUGLAS STREIT Toronto

AUDITORS

HILBORN ELLIS GRANT Toronto, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

TRANSFER AGENTS

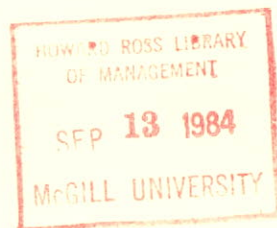
GUARANTY TRUST COMPANY OF CANADA
Toronto and Calgary

EXPLORATION OFFICE

SUITE 4100
350 - 7TH AVENUE S.W.
Calgary, Alberta, Canada T2P 3W5

EXECUTIVE OFFICE

SUITE 2104, Box 12
20 QUEEN STREET WEST
Toronto, Ontario, Canada M5H 3R3





To the Shareholders,
MIDCON OIL & GAS LIMITED

Your directors are pleased to present for your consideration the Annual Report of your Company with the attached Financial Statements, Balance Sheet and Auditors' Report for the fiscal year ended June 30, 1984.

FINANCIAL

Gross oil and gas revenue increased from \$4,313,350.00 in 1983 to \$5,845,835.00 in 1984. Cash flow after deduction of Royalties, Production Processing and Transportation Costs and Petroleum Gas Revenue Tax increased from \$3,135,277.00 to \$3,907,612.00, an increase of 24.6%. The Midcon share of oil production increased from 436 barrels per day in June 1983 to 480 barrels per day in June 1984. Proven developed light oil reserves increased from 2,237,554 bbls. in 1983 to 2,354,000 bbls. in 1984. Your company has working capital of over \$3,760,000.00 and no long term debt. We expect the tertiary recovery miscible flood projects in the Nipisi and Mitsue Oilfields in which Midcon holds significant interest will further increase the Midcon share of proven developed recoverable oil reserves and daily oil production rates during the next year.

On June 1, 1984 your company issued a Notice of Intention to make a Normal Course Issuer Bid to purchase up to 215,000 of its 4,300,000 issued common shares on the open market through the facilities of The Toronto Stock Exchange. The share purchase program will terminate on May 31, 1985, or such earlier time as the program has been completed. As of the date of this report August 20, 1984, your company has purchased 58,200 shares at a total cost of \$223,303.06.

PRODUCTION OPERATIONS

Nipisi Field

Midcon has a 0.91627% interest in the Nipisi Oilfield which is located about 150 miles north-northwest of Edmonton, Alberta. This unitized field is operated by Amoco and during the past year Stage 1 of a tertiary recovery miscible flood and infill drilling project was instituted at Nipisi. Twenty six infill wells have been completed to date outside the Miscible Flood area and the Miscible Flood Project Stage 1 went on stream on February 1, 1984. The Alberta Energy and Natural Resources Conservation Board has recognized additional recoverable oil reserves of 18,000,000 barrels (Midcon share — 164,900 bbls.) from this Stage 1 project. Amoco has scheduled Stages 2, 3, and 4 to further extend the miscible flood areas for future years. As a result of this Stage 1 program, daily oil production from the Mitsue Oilfield increased from 28,910 bbls. per day in June 1983 to 36,851 bbls. per day in June 1984 and the Midcon share of this increased from 267 bbls. per day in 1983 to 338 bbls. per day in 1984. The total cost of the Stage 1 Miscible Flood and infill drilling project was \$36,900,000.00 and the Midcon 0.91627% share of this was about \$338,000.00.

Mitsue Field

Midcon has a 0.56613% of interest in the Mitsue Oilfield located about 100 miles north of Edmonton. This is a Devonian age oilfield producing from the Gilwood sand and is very similar to the Nipisi field.

A miscible flood tertiary recovery and infill drilling program for Mitsue has been approved by the Alberta Energy and Natural Resources Conservation Board. Stage 1 is scheduled to go on stream in the first quarter of 1985. Chevron

who operate the Mitsue field forecast additional recoverable reserves of 21,000,000 barrels (Midcon share 118,900 bbls.) from Stage 1 of Mitsue.

Oil production from the Mitsue field decreased from 29,783 bbls. per day in June 1983 to 23,398 bbls. per day in June 1984 but Chevron expect the miscible flood and infill drilling project will reverse this trend and significantly increase daily oil production at Mitsue during the next year.

U.S. Gulf Coast Offshore

At a February 9, 1982 U.S. Federal offshore lease sale, Midcon participated with a 3.3050% interest in a successful bid by a group then managed by Natomas Offshore Exploration Inc. in the purchase of the West Cameron 284 offshore lease block for \$3,630,000.00 U.S. dollars. This 5000 acre lease block is located in the Gulf of Mexico about 70 miles off the coast of Louisiana. During the past year Midcon increased its interest in this block to 5.38% by purchasing an additional share from one of its partners.

This lease block is a southeast offset to a gas producing lease West Cameron 281 in which Midcon's controlling shareholder Yellowknife Bear Resources Inc. holds an interest. A marine seismic survey run prior to the lease sale indicates a completely separate structure on block 284.

Natomas who were the operator of the block were taken over by Diamond Shamrock last year and Diamond Shamrock have replaced Natomas as operator of block 284. This change has delayed the drilling of the initial exploratory well on this lease but we expect the first well to be drilled within the next year. It will require two exploratory wells to prove up sufficient gas

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reserves to justify a production platform after which five or six additional wells would have to be drilled before production can start. This program will take at least two years by which time we believe there should be a strong demand for gas in the U.S. market.

EXPLORATION

Allaro Resources Program

Midcon is participating in a joint exploration and acquisition program managed by Allaro Resources Ltd. Your company originally contributed \$250,000.00 per year to this program but has now increased its contribution to \$500,000.00 per year. During the past fiscal year Midcon participated through the Allaro program in the drilling of 36 oilwells, 5 gaswells, and 30 dry holes. Of this total, 15 wells were drilled at no cost to the program. The Allaro interests vary from 3% to 50% averaging about 19%.

The most significant Allaro production to date is from the new Spirit River oilfield where Allaro has interests in 10 oilwells and one gaswell.

The Midcon share of primary oil reserves at Spirit River is about 33,000 bbls. Detailed geological studies of this new field are underway in preparation for unitization and water flooding in the near future. This secondary recovery program will probably double the recoverable oil reserves.

Toronto, Ontario
August 20, 1984.

Respectfully submitted,
On behalf of the Board of Directors,

J. DOUGLAS STREIT,
President.

AUDITORS' REPORT

To the Shareholders of Midcon Oil & Gas Limited

We have examined the consolidated balance sheet of Midcon Oil & Gas Limited as at June 30, 1984 and the consolidated statements of income, 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.

In our opinion these consolidated financial statements present fairly the financial position of the company as at June 30, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
July 26, 1984

Hilborn Ellis Grant

Chartered Accountants

**CONSOLIDATED BALANCE SHEET**

June 30, 1984

ASSETS			LIABILITIES		
	1984	1983		1984	1983
Current Assets			Current Liabilities		
Term deposits	\$ 80,109	\$ 4,983,177	Bank indebtedness	\$ 4,610	\$ 74,604
Treasury bills	1,363,930	—	Accounts payable and accrued liabilities	477,378	355,286
Sundry receivables	745,881	712,517	Income and revenue taxes payable	—	1,148,485
Income taxes and royalty tax credit recoverable	<u>2,052,167</u>	<u>—</u>		<u>481,988</u>	<u>1,578,375</u>
	<u>4,242,087</u>	<u>5,695,694</u>	Deferred income taxes	<u>6,408,855</u>	<u>6,723,505</u>
Investments			Minority interest	<u>192,373</u>	<u>203,615</u>
Yellowknife Bear Resources Inc., shares at cost (market value \$1,425,000; 1983 — \$1,406,250)	507,747	507,747			
Investment in South Alberta Pipe Lines Limited	—	50,000			
Other shares, at cost	<u>6,001</u>	<u>6,001</u>			
	<u>513,748</u>	<u>563,748</u>			
Advances on account of exploration expenses (note 2)	<u>116,083</u>	<u>250,000</u>			
Interest in oil and natural gas properties	<u>16,746,717</u>	<u>16,044,131</u>			
Accumulated depreciation, depletion and amortization	<u>2,050,091</u>	<u>944,335</u>			
	<u>14,696,626</u>	<u>15,099,796</u>			
Other Assets	<u>3,505</u>	<u>3,505</u>			
	<u>\$19,572,049</u>	<u>\$21,612,743</u>			
			SHAREHOLDERS' EQUITY		
			Capital Stock (note 5)		
			Authorized		
			Unlimited number of common shares without nominal or par value		
			Issued		
			4,289,200 common shares	3,345,081	3,353,505
			Retained earnings	<u>9,143,752</u>	<u>9,753,743</u>
				<u>12,488,833</u>	<u>13,107,248</u>
				<u>\$19,572,049</u>	<u>\$21,612,743</u>

Approved on behalf of the Board

Director J. DOUGLAS STREIT

Director WILLIAM E. REARDEN

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended June 30, 1984

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	1984	1983
Balance, beginning of year	\$9,753,743	\$1,510,230
Add: Net income for year	1,573,448	9,957,691
Recovery of dividends paid in prior years	—	<u>5,822</u>
	11,327,191	11,473,743
Deduct: Dividends	2,150,000	1,720,000
Dividends declared in prior years	383	—
Excess of acquisition price over stated value of shares purchased for cancellation (note 5)	33,056	—
Balance, end of year	<u>\$9,143,752</u>	<u>\$9,753,743</u>

CONSOLIDATED STATEMENT OF INCOME
Year ended June 30, 1984

**CONSOLIDATED STATEMENT
OF CHANGES IN FINANCIAL POSITION**
Year ended June 30, 1984

	1984	1983		1984	1983
Oil and gas revenue	\$5,845,835	\$4,313,350	Working capital provided by		
Royalties	1,041,788	486,425	Operations		
Production, processing and transportation	448,011	453,935	Operating income for year before extraordinary items	\$ 1,573,448	\$ 1,566,339
Depreciation, depletion and amortization	1,108,161	815,253	Items not affecting working capital		
	2,597,960	1,755,613	Investment in South Alberta Pipe Lines Limited	2,176	(12,358)
Other Income	3,247,875	2,557,737	Minority interest in income of subsidiary	38,428	48,073
Investment in South Alberta Pipe Lines Limited	(2,176)	12,358	Depreciation, depletion and amortization	1,115,603	815,253
Dividends	18,000	18,000	Deferred income taxes	(314,650)	(286,948)
Interest	242,062	960,344	Gain on disposal of automobile	(3,699)	-
Miscellaneous	27,328	-		2,411,306	2,130,359
	285,214	990,702	Sale of interest in oil and natural gas properties	-	14,313,518
	3,533,089	3,548,439	Proceeds from sale of fixed asset	9,148	-
Gain on redemption of scientific research debentures	170,000	-	Repayment of advances on account of exploration expenses	133,917	-
General and administrative expenses (note 3)	(298,454)	(239,721)	Dividends from South Alberta Pipe Lines Limited	47,824	2,403,215
Interest expense on oil and gas revenues	-	(240,595)	Recovery of unclaimed dividends	-	5,822
Petroleum and gas revenue tax	(448,424)	(237,713)		2,602,195	18,852,914
Income before income taxes, minority interest and extraordinary items	2,956,211	2,830,410	Working capital used for		
Income taxes - current	1,658,985	1,502,946	Purchase of common shares	41,480	-
- deferred (reduction)	(314,650)	(286,948)	Advances on account of exploration expenses	-	187,500
Minority interest in income of subsidiary	38,428	48,073	Additions to oil and natural gas properties	717,882	7,471,625
	1,382,763	1,264,071	Payment of dividends to minority interest	49,670	64,813
Operating income for year before extraordinary items	1,573,448	1,566,339	Dividends	2,150,000	1,720,000
Extraordinary items			Payment of dividends declared in prior years	383	-
Gain on sale of petroleum and natural gas interests (net of taxes of \$6,419,000)	-	6,981,495		2,959,415	9,443,938
Share of gain on sale of fixed assets of South Alberta Pipe Lines Limited	-	1,409,857	Increase (decrease) in working capital	(357,220)	9,408,976
Net income for year	\$1,573,448	\$9,957,691	Working capital (deficiency), beginning of year	4,117,319	(5,291,657)
Per Share			Working capital, end of year	\$ 3,760,099	\$ 4,117,319
Income before extraordinary items	\$.37	\$.36			
Net income	\$.37	\$2.32			
Income before deferred taxes and extraordinary items	\$.29	\$.30			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1984

1. Accounting Policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Inter-Rock Oil Co. of Canada Limited and the company's proportionate share of the assets, liabilities, revenues and expenses of the Allaro Resources Joint Venture.

b) Investments

The company owns 50% of the issued and outstanding common shares of South Alberta Pipe Lines Limited. The investment is accounted for on the equity basis.

Marketable securities are recorded at cost.

c) 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.

d) 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.

e) 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 income tax returns.

2. Allaro Resources Joint Venture

The company's share of the Allaro Resources Joint Venture as at the year end of the joint venture, December 31, 1983, accounted for on a proportionate consolidation basis is summarized as follows:

Assets	<u>\$872,474</u>
Liabilities	\$ 82,960
Equity	<u>789,514</u>
	<u>\$872,474</u>
Interest income	<u>\$ 10,652</u>
Production income	<u>\$ 41,393</u>

All expenses of the joint venture have been capitalized. Advances net of distributions from the joint-venture subsequent to December 31, 1983 are shown as advances on account of exploration expenses.

3. General and administrative expenses include the following:

	1984	1983
Directors' fees and salaries	\$ 45,500	\$ 51,500
General and office	20,621	12,568
Legal and audit	51,500	52,225
Rent and office services	70,149	28,789
Salaries and fees – management and office	62,290	58,632
Shareholders' reports	13,799	11,838
Transfer and registrar	20,747	24,169
Interest and foreign exchange	10,105	–
Depreciation and amortization	7,442	–
Gain on disposal of automobile	(3,699)	–
	<u>\$298,454</u>	<u>\$239,721</u>



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4. Contingent Liabilities

The company's transfer agent has returned all unclaimed dividends declared prior to December 31, 1980. The company is obliged to pay unclaimed dividends providing a claim is made within six years of the date of declaration.

5. Capital Stock

On May 18, 1984 the company issued a notice of its intention to purchase, on the open market, up to 215,000 of its 4,300,000 issued common shares. The price the company will pay for any shares purchased will be at the prevailing market price. The share purchase program will terminate on May 31, 1985, or such earlier time as the program has been completed.

• During June, 1984 the company purchased for cancellation 10,800 common shares for a total cash consideration of \$41,480.

