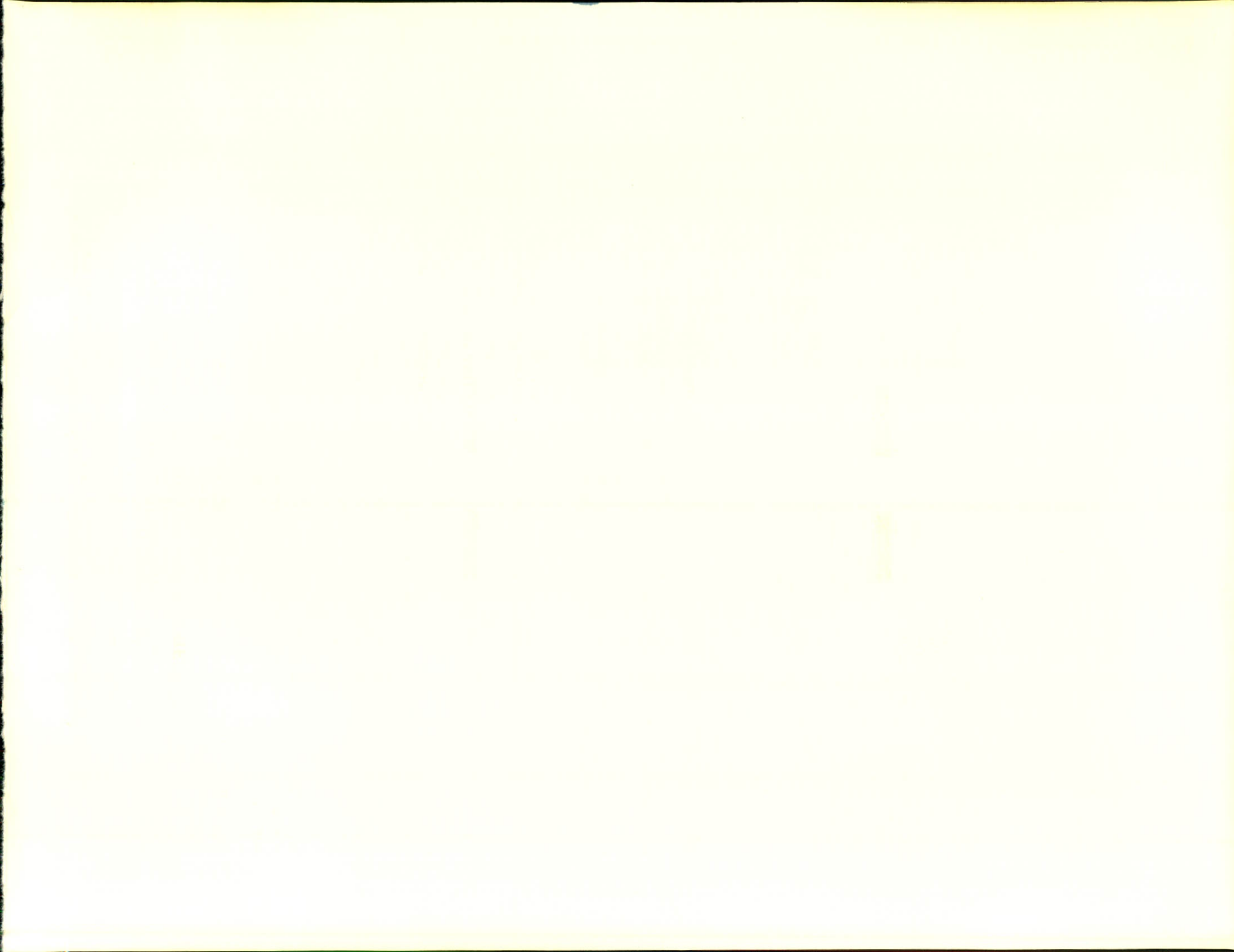




Midcon Oil & Gas Limited

Annual Report 1985





MIDCON OIL & GAS LIMITED

NOTICE OF ANNUAL AND SPECIAL 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 Hotel
123 Queen Street West
Toronto, Ontario

on Monday, September 30, 1985 at the hour of 11:30 a.m. Toronto time, for the following purposes

to receive and consider the Annual Report including the report of the directors and the 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;

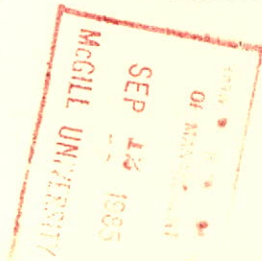
to consider and if thought fit, to confirm, with or without variation, a special resolution to amend the Articles of the Corporation;

to consider and if thought fit, to confirm, with or without variation, a special resolution creating an Employee Stock Option Plan; 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 and Special Resolutions, 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 9th day of September, 1985.



T.P. FISCHER
Secretary-Treasurer

MIDCON OIL & GAS LIMITED

INFORMATION CIRCULAR

as of September 9, 1985

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 4,179,440 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	75.92%

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.

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. (1) Lawyer, Partner in McLean & Kerr	Director of Midcon	1973	1	1	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, (2) Company Executive	Director of Midcon, President and Director of Inter-Rock	1957	15,869	23,200	121
*J. Douglas Streit, (2) 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

*Indicates a member of the audit committee.

(1) A corporation owned by members of Mr. Kerr's family is the registered and beneficial owner of 10,000 shares of Yellowknife Bear and 5,000 shares of Midcon.

(2) Mr. Streit is the beneficial owner of 50% of the issued shares of The J. Bradley Streit Corporation which is the beneficial owner of 68,320 shares of Yellowknife Bear and 500 shares of Inter-Rock.

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

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	\$37,000	nil	nil	nil	nil	nil	\$37,000
Inter-Rock	\$11,500	nil	nil	nil	nil	nil	\$11,500
3 SENIOR OFFICERS:							
Paid by: the Corporation	nil	\$36,500	nil	nil	nil	nil	\$36,500
Inter-Rock	nil	\$12,000	nil	nil	nil	nil	\$12,000
OFFICERS RECEIVING OVER \$40,000 (none)	nil	nil	nil	nil	nil	nil	nil
TOTALS (without duplication)	\$48,500	\$48,500	nil	nil	nil	nil	\$97,000

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 \$59,160 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).

SPECIAL RESOLUTION TO AMEND THE ARTICLES OF THE CORPORATION

The purpose of this special resolution is to change the authorized capital of the Corporation by

- (a) creating an unlimited number of Class B Non-voting shares; and
- (b) providing for the interchangeability, at the shareholder's option, of Common shares for Class B Non-voting shares, and vice versa, at any time and from time to time.

Class B Non-voting shares will be non-voting except with respect to amendments to the Articles of the Corporation or with respect to changes to the Common shares or the Class B Non-voting shares. They will be otherwise identical with the Common shares in all respects and, because they may be converted into Common shares, will provide holders thereof with an equal opportunity to participate in any take-over bid for the Corporation.

No application will be made to list the Class B Non-voting shares on any stock exchange or in any securities market. They will be Restricted Shares within the meaning of Ontario Securities Policy Statement No. 1.3.

MIDCON OIL & GAS LIMITED

PROXY, SOLICITED BY MANAGEMENT, FOR THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON SEPTEMBER 30, 1985 AND ANY AND ALL ADJOURNMENTS THEREOF

The undersigned hereby revokes all proxies previously given in connection with the above mentioned meeting and hereby appoints any of J. Douglas Streit, C. William Streit and William E. Rearden or instead of any of them
as proxy of the undersigned, with full power of substitution, to attend, act and vote all shares registered in the name of the undersigned in the same manner, to the same extent and with the same powers as if the undersigned were personally present at such meeting and any and all adjournments thereof. Without limiting the generality of the foregoing such proxy is directed to vote as follows:

1. ELECTION OF DIRECTORS

- VOTE in the election of directors
 WITHHOLD from voting in the election of directors

**2. APPOINTMENT OF AUDITORS AND AUTHORIZATION OF DIRECTORS
TO FIX THEIR REMUNERATION**

- FOR AGAINST ABSTAIN

3. SPECIAL RESOLUTION TO AMEND THE ARTICLES OF THE CORPORATION

- FOR AGAINST ABSTAIN

4. SPECIAL RESOLUTION TO ESTABLISH AN EMPLOYEE STOCK OPTION PLAN

- FOR AGAINST ABSTAIN

5. OTHER MATTERS

VOTE 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.

This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted for Proposals 1, 2, 3 and 4.

If you cannot attend the meeting, please date and sign this proxy and return it immediately in the enclosed envelope.

DATED: September , 1985

.....
Signature(s) of Shareholder(s)

NOTES

(1) THE PERSONS DESIGNATED IN THIS 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 THIS 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.



It is expected that, if this special resolution is passed, Yellowknife Bear Resources Inc. will convert sufficient of its Common shares into Class B Non-voting shares to reduce its holdings to less than 50% of the outstanding Common shares of the Corporation. The Corporation would then cease to be a subsidiary of Yellowknife Bear Resources Inc. for the purposes of the Canada Business Corporations Act and would no longer be subject to the provisions of that Act which prevent the Corporation from holding shares of Yellowknife Bear Resources Inc.

Tax Consequences of conversion

Canada

The following is a summary of the principal Canadian federal income tax consequences to shareholders of the proposed reorganization of the share capital of the Corporation. The summary is based upon the current provisions of the Income Tax Act (Canada) and applies only to shareholders who hold their Common shares as capital property.

The amendment of the terms of the Common shares as contemplated by this special resolution will not constitute a disposition of Common shares by a holder thereof. The conversion by a holder of Common shares into Class B Non-voting shares or the conversion of Class B Non-voting shares into Common shares will not constitute a disposition of the shares so converted by the holder and the cost to the holder of the shares obtained by virtue of such conversion will be the adjusted cost base to him of the shares so converted.

United States

The following is a summary of the principal United States federal income tax considerations generally applicable to shareholders who are U.S. citizens or residents and who hold Common shares as a capital asset. This summary is based upon the current provisions of the Internal Revenue Code of 1954, as amended (the "Code") and the current Regulations, case law and Internal Revenue Service pronouncements interpreting the Code. It also assumes (as the Corporation reasonably believes to be the case) that the Corporation is not and has never been a "controlled foreign corporation" (a "CFC") for U.S. income tax purposes. These comments do not include a consideration of tax consequences under relevant state tax legislation or tax legislation of countries other than the United States or to a shareholder who is neither a citizen nor a resident of the United States.

The amendment of the terms of the Common shares as contemplated by this special resolution will not result in any recognition of gain or loss by shareholders for U.S. income tax purposes. The basis and the holding period of the Common shares held by a holder will be unaffected as a result of the amendment.

A conversion of Common shares into Class B Non-voting shares, and a conversion of Class B Non-voting shares into Common shares, pursuant to this special resolution, will constitute an exchange of common stock of the Corporation for other common stock of the Corporation. As a result, no gain or loss will be recognized on such conversion for U.S. income tax purposes. Following any such conversion the basis of the shares received by the shareholder will be the same as the shareholder's basis in the shares surrendered, and the holding period of the shares received will include the holding period of the shares surrendered.

Dissenting Shareholder Rights

A shareholder who opposes adoption of the special resolution to amend the Articles of the Corporation is entitled to dissent and, if the special resolution is in fact accepted and becomes effective, to be paid the fair value of his shares in accordance with section 184 of Ontario's Business Corporations Act (the "Act"). The following is a brief summary of the procedure to be followed by a dissenting shareholder.

The dissenting shareholder shall send to the Corporation, at or before the meeting of shareholders at which the special resolution is to be voted on, a written objection to the special resolution. The exercise of a proxy does not constitute a written objection. The Corporation is required within 10 days after the shareholders adopt the special resolution to send to each shareholder who has filed a written objection, notice that the special resolution has been adopted. Such notice is not required to be sent to any shareholder who voted for the special resolution or who has withdrawn his objection. A dissenting shareholder is then required within 20 days after he receives such notice, or if he does not receive such notice within 20 days after he learns that the special resolution has been adopted, to send to the Corporation a written notice (the "Notice of Dissent") containing his name and address, the number and class of shares in respect of which he dissents and a demand for payment of the fair value of such shares. Not later than 30 days after the sending of his Notice of Dissent, a dissenting

shareholder shall send the certificates representing the shares in respect of which he dissents to the Corporation or its transfer agent. A dissenting shareholder may only claim under section 184 of the Act with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. A dissenting shareholder who fails to comply with the foregoing procedures has no right to make any claim against the Corporation under section 184 of the Act. On sending his Notice of Dissent within 20 days as aforesaid, and except where the dissenting shareholder withdraws his Notice of Dissent or the directors do not implement the special resolution in the circumstances particularized in section 184 of the Act, a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under section 184 of the Act.

The Corporation is required within 7 days after the later of the day on which the action approved by the special resolution is effective, or the date the Corporation receives the demand for payment of the fair value of such shares, to send to each dissenting shareholder who has sent such notice a written offer to pay for such shares in an amount considered by the directors of the Corporation to be the fair value thereof accompanied by a statement showing how the fair value was determined and shall pay for the shares of a dissenting shareholder within 10 days after the offer has been accepted. Any such offer lapses if acceptance is not received by the Corporation within 30 days after the offer has been made. Where the Corporation fails to make an offer or if a dissenting shareholder fails to accept an offer, the Corporation or the dissenting shareholder may apply to the Court to fix a fair value for the shares of any dissenting shareholder. The Act provides specific time limits within which all of the foregoing matters must be carried out by both the dissenting shareholder and the Corporation in order to preserve their respective rights under the Act.

Requirements for Passage

Passage of this special resolution requires a majority of at least two-thirds of the votes cast by shareholders who vote in respect of it. In accordance with OSC Policy Statement 1.3, a majority of the votes cast by shareholders who vote in respect of this special resolution, other than votes attaching to securities held by affiliates of the Corporation, and securities the beneficial owners of which, alone or in combination with others, effectively control the Corporation will also be required. For such purpose the shares of the Corporation owned by the Yellowknife Bear Resources Inc. by its directors and by the directors of the Corporation (3,338,280 shares) will be excluded.

On any ballot that may be called for with respect to the passage of the special resolution, shares represented by each properly executed proxy appointing the persons named by management in the accompanying form of proxy will be voted in accordance with the specifications in the proxy. **IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR PASSAGE OF THE SPECIAL RESOLUTION.**

SPECIAL RESOLUTION TO ESTABLISH AN EMPLOYEE STOCK OPTION PLAN

The purpose of the special resolution is to establish an Employee Stock Option Plan. Passage of the special resolution requires a majority of at least two-thirds of the votes cast by shareholders who vote in respect of the special resolution.

On any ballot that may be called for with respect to the passage of the special resolution, shares represented by each properly executed proxy appointing the persons named by management in the accompanying form of proxy will be voted in accordance with the specifications in the proxy. **IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR PASSAGE OF THE SPECIAL RESOLUTION.**

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

MIDCON OIL & GAS LIMITED

SPECIAL RESOLUTION TO ESTABLISH AN EMPLOYEE STOCK OPTION PLAN

RESOLVED that an Employee Stock Option Plan is hereby created to provide for the issue of non-assignable options in favour of persons, designated from time to time by the board of directors of the Corporation who provide services to the Corporation whether as employees or otherwise, to purchase at not less than 90% of the closing market price on the day previous to the grant thereof, the whole or any part of such number of Common shares of the Corporation, not in excess of an aggregate of 10% of the then issued Common shares of the Corporation for all such options so granted, and exercisable during such period, not extending beyond 10 years from time of grant, as the board of directors of the Corporation shall determine with respect to any such option at the time at which such option is granted.

MIDCON OIL & GAS LIMITED

SPECIAL RESOLUTION TO AMEND ARTICLES

RESOLVED as a special resolution that the Articles of the Corporation shall be amended to provide that:

The Corporation is authorized to issue an unlimited number of Common shares and an unlimited number of Class B Non-voting shares both without nominal or par value (hereinafter referred to as "Common shares" and "Class B Non-voting shares", respectively). The preferences, rights, privileges, limitations and conditions attaching to the Common shares and the Class B Non-voting shares shall be as follows:

- (1) The Common shares and the Class B Non-voting shares shall rank equally as to dividends and all dividends declared in any fiscal year shall be declared and paid in equal or equivalent amounts per share on all the Common shares and all the Class B Non-voting shares at the time outstanding without preference or distinction.
- (2) Each Common share may at any time, at the option of the holder, be converted into one Class B Non-voting share. Such conversion privilege shall be exercised by notice in writing given to the Corporation or an appropriate transfer agent accompanied by the certificate or certificates representing the Common shares in respect of which such right is being exercised. The holder shall also pay any governmental or other tax imposed in respect of such conversion. Upon receipt of such notice and certificate or certificates, the Corporation shall, effective as of the date of such receipt, issue or cause to be issued a certificate or certificates representing fully paid Class B Non-voting shares upon the basis above prescribed to the holder of such Common shares. If less than all of the Common shares represented by any certificate are to be converted the holder shall be entitled to receive a new certificate representing the Common shares comprised in the original certificate which are not to be converted.
- (3) Each Class B Non-voting share may at any time, at the option of the holder, be converted into one Common share. Such conversion privilege shall be exercised in the same manner as the conversion privilege for which provision is made in the immediately preceding paragraph 2 hereof and the provisions thereof shall apply mutatis mutandis.
- (4) Neither the Common shares nor the Class B Non-voting shares shall be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith, the other class of shares is subdivided, consolidated, reclassified or otherwise changed in the same proportion and in the same manner.
- (5) Any amendment to the Articles of the Corporation to delete or vary any right, privilege, restriction or condition attaching to the Common shares or the Class B Non-voting shares or to create any class of shares ranking in priority to or on a parity with the Common shares or the Class B Non-voting shares shall be authorized by a special resolution of the holders of the Common shares and by a special resolution of the holders of the Class B Non-voting shares.
- (6) The holders of the Common shares shall be entitled to one vote for each of such Common share at all meetings of shareholders, except meetings at which only a specified class of shares is entitled to vote.
- (7) The holders of the Class B Non-voting shares shall, to the same extent as a holder of Common shares, be given notice of and be invited to attend all meetings of the holders of the Common shares. Except as provided in paragraph 5, the holders of the Class B Non-voting shares shall not be entitled to vote at any meeting of shareholders.
- (8) In the event of liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, all of the property and assets of the Corporation available for distribution to the holders of the Common shares and of the Class B Non-voting shares shall be paid or distributed equally share for share to the holders of the Common shares and the Class B Non-voting shares, respectively, without preference or distinction.

PROVIDED that, without further approval of the shareholders, the directors of the Corporation may revoke this special resolution before it is acted upon.









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

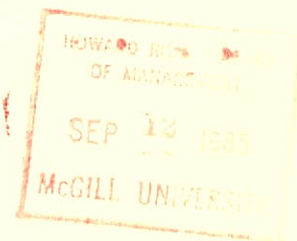
GUARANTY TRUST COMPANY OF CANADA
Toronto and Calgary

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, 1985.

FINANCIAL

Gross oil and gas revenue increased from \$5,845,835.00 in 1984 to \$6,624,206.00 in 1985. Cash flow after deduction of Royalties, Production Processing and Transportation Costs and Petroleum Gas Revenue Tax increased from \$3,906,612.00 to \$4,693,915.00, an increase of over 20%. Net income for the year increased from \$1,573,448.00 (.37¢ per share) to \$2,913,404.00 (.69¢ per share).

The Company paid a .50¢ per share dividend in December 1984 and a special .75¢ per share dividend in April 1985 following the sale of Midcon's Yellowknife Bear Resources stock on which Midcon realized a gain of \$1,161,003.00.

PRODUCTION OPERATIONS

Mitsue Oilfield

Midcon has a 0.56613% interest in the unitized Mitsue Oilfield which is located about 100 miles north of Edmonton, Alberta. This Devonian-Age field is operated by Chevron Canada Resources Limited and produces from the Gilwood Sand.

Until 1984, the Field was produced under a secondary recovery waterflood program which

Chevron estimates would have recovered 47% of the 722,000,000 barrels of original oil in place had the program continued. Chevron has now instituted Stage 1 of a hydrocarbon miscible flood (HCMF) and infill drilling program on two blocks in the centre of the Mitsue Oilfield to increase the percentage recovery of the oil in place. This Stage 1 program went on stream on May 15, 1985 with the commencement of solvent injection and all facilities are now operational. The Alberta Energy Resources Conservation Board (ERCB) has recognized a 10% additional recovery factor which will result in the recovery of an additional 24,950,000 bbls. of oil from the Stage 1 project area. Chevron believes the ERCB estimate is conservative and projects recovery of an additional 12.2% or 30,440,000 bbls.

The Stage 1 program increased the rate of Mitsue Oil production from 23,390 bbls. per day in June 1984 to 27,774 bbls. per day in June 1985. Using the more conservative ERCB 10% recovery figure, the Midcon share of remaining recoverable oil reserves at Mitsue increased from 474,270 bbls. June 30, 1984 to 537,130 bbls. June 30, 1985 after giving effect to the Midcon share of oil production during that year.

Using their 12.2% of incremental recovery factor, Chevron has forecast a payout rate of 1.9 years and a rate of return greater than 100% for the Mitsue Stage 1 HCMF and infill drilling program.

Chevron recently applied to the ERCB for approval of the HCMF and infill drilling program Stage 2 at Mitsue and expects approval by September of 1985. The Mitsue Unit has

approved early expenditures of \$1,690,000.00 and this work is already underway to accelerate the Stage 2 start up date.

Chevron expects the 14,106 acre Stage 2 project to recover an additional 21,796,000 bbls. of oil or 12.8% of the original Stage 2 area oil in place.

Chevron has budgeted a total cost for the Stage 2 project of \$77,503,000.00. Chevron's projected incremental economic analysis over waterflood using this figure shows a payout rate of 1.2 years and a rate of return of 91%.

The start up of Stage 2 is scheduled for the second quarter of 1986. With this expansion approximately 50% of the Mitsue Unit on an original oil in place basis will be under miscible displacement mechanism, and Chevron is already planning to extend the HCMF to additional parts of the Mitsue Field after completion of Stage 2.

Nipisi Oilfield

Midcon owns a 0.91627% interest in the unitized Nipisi Oilfield which is located about 30 miles north of the Mitsue Field. Nipisi, like Mitsue, is a Devonian-Age field producing from the Gilwood Sand, but Nipisi is operated by Amoco Canada Petroleum Company Limited. Until 1983 the Nipisi Field was produced under a secondary recovery waterflood program which Amoco estimates would have recovered only 45% of the original 708,000,000 barrels of oil in place. Amoco started the Stage 1 HCMF and infill drilling program at Nipisi late in 1983 on a 5600 acre block in the centre of the Field. The project went on stream on February 1, 1984 and

the Alberta ERCB has recognized an additional recovery of 18,000,000 barrels of oil as a result of this Stage 1 project.

Amoco on behalf of the working interest owners in the Nipisi Gilwood Unit has applied to the Alberta ERCB for approval of a 15,680 acre Stage 2 HCMF and infill drilling program. Amoco has forecast the Stage 2 program will recover an additional 45,440,000 barrels of oil over waterflood recovery, the Stage 3 Nipisi HCMF project scheduled for 1988 will recover an additional 25,516,000 barrels of oil, and Nipisi HCMF Stage 4 for 1990 will recover an additional 21,934,400 barrels of oil. Start up dates for Stages 2, 3 and 4 are March 1986, March 1988 and March 1990 respectively.

The Midcon 0.91627% share of additional tertiary oil reserves forecast by Amoco to be recovered from Nipisi HCMF Stage 2 will amount to 416,353 barrels of oil. The total budget for this Stage 2 program is \$91,568,000 and the Midcon share of this cost will be \$839,000.00 which should be recovered in about 1.2 years.

EXPLORATION

Allaro Resources Program

Midcon is participating in a joint exploration and production program managed by Allaro Resources Ltd. and is currently contributing \$500,000.00 per year to this operation. Midcon has a 5.4% interest in the Allaro program for the current year. During the past year, through the Allaro program Midcon had an interest in 46 wells drilled, 16 of which were drilled at no cost to Midcon. This drilling resulted in 28 oil wells, one gas well and 17 dry holes. The most

significant wells were those drilled at Lochend, Keho, Cyn Pem and Loon. During this period, Allaro concentrated on acquiring an interest in greater acreage spreads. As a result, approximately a 36% interest in 71,680 acres of land in 28 different projects was acquired.

A license has been granted to drill a Nisku test at Sundre. This Swan Hills Member test spudded July 31. The objective of this well is to test for sulfurous gas in the Leduc formation. Any testing required will not be done until October.

Agreement has been reached on unitization of the Spirit River oilfield. Equipment for water flooding has been ordered and necessary government approvals are being obtained. Current plans are to start water injection by January 1, 1986.

This Spirit River secondary recovery waterflood program is expected to double the Midcon share of recoverable reserves from this Field.

FUTURE OUTLOOK

The 1985 Western Accord between the new Canadian Conservative Federal Government and the Producing Provinces was reached in March 1985.

The main points of it are:

- 1) the Petroleum and Gas Royalty Tax (PGRT) will be phased out reducing from the present 12% to 10% in 1986, 8% in 1987, 6% in 1988 and 0% in 1989;
- 2) all oil prices after June 1, 1985 will be world price;

- 3) all wells drilled after March 31, 1985 will pay no PGRT.

On June 24, 1985 the Alberta Government announced a new Oil and Gas Activity Program. Royalties on old oil (now 45%) will be reduced in stages to 40% and royalties on new oil reduced from the present 35% to 30% by August 1, 1987. The Alberta Royalty Tax Credit effective April 1, 1986 has been increased to 75% to a maximum of \$3 million from the current 50% to a maximum of \$2 million.

The elimination of the PGRT, the reduction in Alberta Crown Royalties and the increase in the Alberta Royalty Tax Credit will significantly increase Midcon's production revenue and should more than offset any decrease due to the softening of world crude oil prices.

The continued expansion of the tertiary recovery infill drilling and miscible flood programs at Mitsue and Nipisi should continue to steadily increase Midcon oil reserves and net production income. The increasingly successful Allaro program will also continue to expand Midcon interest.

Toronto, Ontario
September 3, 1985

Respectfully submitted,
On behalf of the Board of Directors,

J. DOUGLAS STREIT,
President.

**CONSOLIDATED BALANCE SHEET**

June 30, 1985

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ASSETS	1985	1984	LIABILITIES	1985	1984
Current Assets			Current Liabilities		
Cash	\$ 211,020	\$ —	Bank indebtedness	\$ —	\$ 4,610
Term deposits	86,158	80,109	Accounts payable and accrued liabilities	491,129	477,378
Treasury bills	999,966	1,363,930	Income and revenue taxes payable	342,217	—
Sundry receivables	949,431	745,881		<u>833,346</u>	<u>481,988</u>
Income taxes and royalty tax credit recoverable	—	2,052,167	Deferred income taxes	<u>6,114,800</u>	<u>6,408,855</u>
	<u>2,246,575</u>	<u>4,242,087</u>	Minority interest	<u>117,525</u>	<u>192,373</u>
Investments					
Yellowknife Bear Resources Inc., shares at cost	—	507,747			
Other shares, at cost	6,001	6,001			
	<u>6,001</u>	<u>513,748</u>			
Advances on account of exploration expenses (note 2)	54,616	116,083	SHAREHOLDERS' EQUITY		
Interest in oil and natural gas properties	17,493,817	16,746,717	Capital Stock (note 5)		
Accumulated depreciation, depletion and amortization	3,041,489	2,050,091	Authorized		
	<u>14,452,328</u>	<u>14,696,626</u>	Unlimited number of common shares		
Other Assets	3,505	3,505	Issued		
	<u>\$16,763,025</u>	<u>\$19,572,049</u>	4,179,440 common shares	3,259,469	3,345,081
			Retained earnings	<u>6,437,885</u>	<u>9,143,752</u>
				<u>9,697,354</u>	<u>12,488,833</u>
				<u>\$16,763,025</u>	<u>\$19,572,049</u>

Approved on behalf of the Board

Director J. DOUGLAS STREIT

Director WILLIAM E. REARDEN

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended June 30, 1985

	1985	1984
Balance, beginning of year	\$ 9,143,752	\$ 9,753,743
Add: Net income for year	<u>2,913,404</u>	<u>1,573,448</u>
	12,057,156	11,327,191
Deduct: Dividends	5,260,880	2,150,000
Dividends declared in prior years	613	383
Excess of acquisition price over stated value of shares purchased for cancellation (note 5)	357,778	33,056
Balance, end of year	<u>\$ 6,437,885</u>	<u>\$ 9,143,752</u>

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, 1985 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, 1985 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 31, 1985

Hilborn Ellis Grant

Chartered Accountants

**CONSOLIDATED STATEMENT OF INCOME**

Year ended June 30, 1985

**CONSOLIDATED STATEMENT
OF CHANGES IN FINANCIAL POSITION**

Year ended June 30, 1985

		1985	1984			1985	1984
Oil and gas revenue	\$6,624,206	\$5,845,835		Working capital provided by			
Royalties	1,315,124	1,041,788		Operations			
Production, processing and transportation	190,267	448,011		Net income for year	\$ 2,913,404	\$ 1,573,448	
Depreciation, depletion and amortization	980,711	1,108,161		Items not affecting working capital			
	2,486,102	2,597,960		Exploration and dry well expenditure	48,322	-	
Operating income	4,138,104	3,247,875		Investment in South Alberta Pipe Lines Limited	-	2,176	
Exploration and drywell expenditures	48,322	-		Minority interest in income of subsidiary	168,259	38,428	
	4,089,782	3,247,875		Depreciation, depletion and amortization	994,043	1,115,603	
Other Income				Deferred income taxes	(294,055)	(314,650)	
Investment in South Alberta Pipe Lines Limited	-	(2,176)		Loss (gain) on disposal of automobile	7,001	(3,699)	
Dividends	9,000	18,000		Gain on sale of Yellowknife Bear Resources Inc., shares	(1,161,003)	-	
Interest	227,458	242,062			2,675,971	2,411,306	
Miscellaneous	3,251	27,328		Proceeds from sale of investment	1,668,750	-	
	239,709	285,214		Proceeds from sale of fixed asset	8,000	9,148	
	4,329,491	3,533,089		Repayment of advances on account of exploration expenses	61,467	133,917	
Gain on redemption of scientific research debentures	-	170,000		Dividends from South Alberta Pipe Lines Limited	-	47,824	
General and administrative expenses (note 3)	(335,734)	(298,454)			4,414,188	2,602,195	
Petroleum and gas revenue tax	(424,900)	(448,424)		Working capital used for			
Income before income taxes, minority interest and extraordinary item	3,568,857	2,956,211		Redemption of common shares	443,390	41,480	
Income taxes – current	1,942,252	1,658,985		Additions to oil and natural gas properties	813,069	717,882	
– deferred (reduction)	(294,055)	(314,650)		Payment of dividends to minority interest	243,106	49,670	
Minority interest in income of subsidiary	168,259	38,428		Dividends	5,260,880	2,150,000	
	1,816,456	1,382,763		Payment of dividends declared in prior years	613	383	
Income before extraordinary item	1,752,401	1,573,448			6,761,058	2,959,415	
Extraordinary item				Decrease in working capital	(2,346,870)	(357,220)	
Gain on sale of Yellowknife Bear Resources Inc. shares	1,161,003	-		Working capital, beginning of year	3,760,099	4,117,319	
Net income for year	\$2,913,404	\$1,573,448		Working capital, end of year	\$ 1,413,229	\$ 3,760,099	
Per Share							
Net income before extraordinary item	\$.42	\$.37					
Net income	\$.69	\$.37					

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

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, 1984, accounted for on a proportionate consolidation basis is summarized as follows:

Assets	<u>\$1,242,231</u>
Liabilities	\$ 40,370
Equity	<u>1,201,861</u>
	<u>\$1,242,231</u>
Interest income	<u>\$ 6,500</u>
Production income	<u>\$ 155,298</u>

All expenses of the joint venture have been capitalized. Advances net of distributions from the joint-venture subsequent to December 31, 1984 are shown as advances on account of exploration expenses.

3. General and administrative expenses include the following:

	1985	1984
Directors' fees and salaries	\$ 48,500	\$ 45,500
General and office	43,431	20,621
Professional fees	37,592	51,500
Rent and office services	72,810	70,149
Salaries and fees – management and office	72,840	62,290
Shareholders' reports	16,923	13,799
Transfer and registrar	23,149	20,747
Interest and foreign exchange	156	10,105
Depreciation and amortization	13,332	7,442
Loss (gain) on disposal of automobile	7,011	(3,699)
	<u>\$335,734</u>	<u>\$298,454</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 1985

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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

During the year the company purchased for cancellation 109,760 common shares for a total cash consideration of \$443,390.

6. Income Taxes

The company's effective income tax rate is comprised of the following:

	%	Amount
Combined basic federal and provincial income tax rates	46.6	\$1,663,087
Disallowed royalties	11.6	413,987
Disallowed petroleum and gas revenue tax	4.6	164,167
Resource allowance	(16.4)	(585,293)
Other	(0.2)	(7,751)
	<u>46.2</u>	<u>\$1,648,197</u>



