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Information Booklet

Merger of

BRINCO LIMITED

and

CONUCO LIMITED

The information contained in this Information Booklet is supplemental to the information provided in the Information Circular. Unless otherwise noted, the information contained herein is given as of August 22, 1979.

HOWARD ROSS LIBRARY
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Dated August 22, 1979.

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SUMMARY

The following is a summary of certain information contained in this Information Booklet relating to the proposed merger of Brinco Limited and Conuco Limited. More detailed information may be found elsewhere in this Information Booklet, and statements in the following summary are qualified by and made subject to the more extensive discussion contained elsewhere herein. In addition, this Information Booklet contains information not summarized in this summary.

Introduction

The shareholders of Conuco Limited ("Conuco") and Brinco Limited ("Brinco") are being asked to consider and vote upon the corporate steps necessary to accomplish the merger of their respective companies. The merger is to be effected pursuant to a merger and amalgamation agreement providing for the amalgamation of Conuco with three of its affiliated companies, namely Caballero Exploration Ltd., Canada 91639 Limited and Exalta Petroleums Ltd. Upon the amalgamation, the shareholders of the amalgamating companies (other than the amalgamating companies themselves) will receive one special share of the amalgamated company for each three common shares or convertible preferred shares of Conuco. Each special share will be exchangeable at the holder's option, for a period of 60 days following the amalgamation, into one common share, one preferred share Series A and one preferred share Series B of Brinco. At the end of the 60 day period, each special share which has not been so exchanged (other than special shares held by Brinco) will be redeemed for one common share, one preferred share Series A and one preferred share Series B of Brinco.

Brinco is currently the registered holder of one preferred share of Canada 91639 Limited which share will be converted into one common share of the amalgamated company, so that following the exchange and redemption of special shares of the amalgamated company referred to above, the amalgamated company will be a wholly-owned subsidiary of Brinco.

Reference is made to the chart entitled "Present Ownership of Conuco and Affiliated Companies" on page 5 and to the heading "Merger Steps" on page 6.

Merging Companies

Brinco is a Newfoundland public company engaged, through subsidiaries and other interests, in the exploration for and development of natural resources in Canada and the United States, principally uranium, asbestos, zinc, lead, copper, gold, oil and natural gas. Reference is made to Part IV "Brinco" commencing on page 39.

Conuco is an Alberta public company engaged, directly and through subsidiaries (including Exalta Petroleums Ltd.), in the exploration for and development of oil and natural gas properties in Canada and the United States. Reference is made to Part III "Conuco and Affiliated Companies" commencing on page 25.

Reasons for the Merger

The principal reason for the merger is to create a company which will be a stronger and more efficient entity in the Canadian natural resource industry than either Conuco or Brinco is at present. The respective boards of directors of Brinco and Conuco consider that a combination of current properties and assets and the experience of management of the two companies together with the financial resources of Brinco will be effective in achieving this goal and will result in a company which will be better able to provide a return to shareholders and future investors. For a more detailed discussion of the reasons for the merger reference is made to the heading "Reasons for Merger" on page 11.

Required Shareholder Action

In order for the amalgamation of Conuco and its affiliated companies to become effective, in addition to adoption by the shareholders of the other amalgamating companies, the merger and amalgamation agreement must be adopted by at least 75% of the votes cast by the holders of common shares and convertible preferred shares of Conuco present in person or represented by proxy at separate meetings of the holders of such classes of shares. All of the directors and senior officers of Conuco intend to vote or to cause the shares of Conuco beneficially owned or controlled by them to be voted in favour of the adoption of the merger and amalgamation agreement. Such directors and officers as a group beneficially own or control approximately 60.4% of the issued and outstanding common shares and approximately 25.5% of the issued and outstanding convertible preferred shares of Conuco.

The amendment to the authorized capital of Brinco which is necessary to effect the merger must be approved by a resolution passed by at least 75% of the votes cast by the holders of common shares of Brinco present in person or represented by proxy at a shareholders meeting of Brinco. Thornwood Investments Limited, which holds 82.5% of the outstanding common shares of Brinco, intends to vote for the approval of such amendment.

Conditions of Merger

In addition to approval of the merger by the shareholders as referred to above, the merger is subject to the satisfaction of a number of conditions, including obtaining approval under the Foreign Investment Review Act (Canada) and the approval of the Supreme Court of Alberta. In addition to any modification of the terms of the merger made by the shareholders, the parties to the merger and amalgamation agreement may, without further authorization by their respective shareholders, at any time prior to the amalgamation, modify any of the covenants or the performance of any of their respective obligations contained in the merger and amalgamation agreement. Their respective boards of directors may also, by mutual agreement, terminate the merger and amalgamation agreement without further action on the part of their respective shareholders. In approving the amalgamation, the Supreme Court of Alberta is required to have regard to the interests of dissentient shareholders but, subject to such requirements, dissentient shareholders will not have any right to have their shares appraised and to receive the appraised cash value thereof.

Brinco Shares

If the merger is approved, by the end of the 61st day following the amalgamation shareholders of Conuco (other than Canada 91639 Limited and Brinco) will receive one common share, one preferred share Series A and one preferred share Series B of Brinco for every three common shares or convertible preferred shares of Conuco held before the merger and will no longer hold any shares of Conuco.

The preferred shares Series A of Brinco will have the following major attributes:

Ranking:	In priority to common shares on payment of dividends and on liquidation or distribution of assets.
Dividends:	Fixed cumulative preferential cash dividends at an annual rate of 7% per annum on par value ($5.50) payable quarterly.
Convertible:	During five years from amalgamation into 0.55 of a common share, subject to adjustment in event of dilution.
Retraction at Option of Holder:	During a period of not less than 90 days upon expiration of five years from amalgamation at $5.50 per share plus any accrued and unpaid dividends.
Redemption by Brinco:	Not redeemable for period of 30 months from amalgamation. Thereafter redeemable only if market price of common shares is not less than 150% of equivalent conversion price of preferred shares Series A (initially $10.00).

Issue of other shares ranking prior to or on a parity with preferred shares Series A:	May not be issued unless (i) adjusted consolidated net earnings available for dividends are equal to at least two times the annual dividend requirements on all preferred shares Series A and other shares ranking prior to or on a parity with the preferred shares Series A to be outstanding immediately after such issue and (ii) shareholders' equity is equal to at least one and one-half times the aggregate par value of all preferred shares Series A and other shares ranking prior to or on a parity with preferred shares Series A to be outstanding immediately after such issue.
Voting Rights:	Each preferred share Series A will carry a fraction of a vote equal to the conversion basis of such share into common shares at all meetings of shareholders (initially 0.55 of a vote). In addition, while at least 10% of the total number of preferred shares Series A originally outstanding remains outstanding, holders of preferred shares Series A will be entitled to elect two directors.

The preferred shares Series B will have the following major attributes:

Ranking:	On a parity with preferred shares Series A on liquidation or distribution of assets.
Retraction at Option of Holder:	Upon 30 days' notice during 12 months following amalgamation at a price of $5.50 per share.
Convertible at Option of Holder:	During 12 months following amalgamation into 0.55 of a common share, subject to adjustment in event of dilution.
Deemed Conversion:	Upon expiration of 12 months following amalgamation, any outstanding preferred shares Series B will automatically convert into common shares upon conversion basis then in effect.
Issue of other shares ranking prior to or on a parity with preferred shares Series B:	May not be issued unless shareholders' equity is equal to at least one and one-half times aggregate par value of all preferred shares Series B and other shares ranking prior to or on a parity with preferred shares Series B to be outstanding immediately after such issue.
Voting Rights:	Each preferred share Series B will carry a fraction of a vote equal to the conversion basis of such share into common shares at all meetings of shareholders (initially 0.55 of a vote).

Holders of common shares of Brinco will be entitled to dividends if, as and when declared by the directors, subject to the prior rights of holders of preferred shares. In the event of the liquidation, dissolution or winding-up of Brinco, such holders would be entitled to receive the remaining assets of Brinco after all required payments to the holders of preferred shares. Holders of common shares are entitled to one vote for each common share at all meetings of shareholders except meetings at which only holders of another class or series are entitled to vote.

Reference is also made to Part V of this Information Booklet entitled "Description of Brinco Shares" commencing on page 56. The entire text of the terms and conditions to be attached to the preferred shares of Brinco as a class and to the preferred shares Series A and preferred shares Series B of Brinco, in particular, are set out in the Appendix to this Information Booklet.

Tax Consequences

For many Conuco Shareholders, the exchange of their special shares of the amalgamated company into shares of Brinco as referred to above will not result in any income tax liability pursuant to the Income Tax Act (Canada). However, if such holders fail to exchange their special shares during the 60 day period following the amalgamation, thereby permitting such special shares to be redeemed, they may incur income tax liability. Prior to the amalgamation, Conuco will apply for a ruling from the United States Internal Revenue Service to the effect that the merger and amalgamation will constitute a tax-free reorganization for purposes of United States federal income

taxes. The Canadian and United States income tax consequences of the merger are discussed under the heading "Income Tax Consequences" on page 17.

Opinion as to Fairness

McLeod Young Weir Limited, the financial advisor to Brinco, has at the request of Brinco and Conuco, furnished an opinion to the respective shareholders of Conuco and Brinco to the effect that the merger is fair and equitable from a financial point of view to the shareholders of Conuco and any dilution to the shareholders of Brinco resulting from the merger is more than compensated for by other benefits to Brinco resulting from the merger. A copy of this opinion appears on page 93. Reference is also made to the heading "Exchange Ratio and Financial Advisor's Opinion" on page 11.

Summary of Financial Data

The following table sets forth historical and pro-forma financial data for the periods indicated, which has been derived from the historical and pro-forma consolidated financial statements of Conuco and Brinco appearing elsewhere in this Information Booklet and which should be read in conjunction with those financial statements and related notes.

	Brinco	Conuco	Merged Company — Pro-Forma (1)
	(Year Ended December 31, 1978)	(Year Ended March 31, 1979)	(Year Ended March 31, 1979)
Gross Revenues	$ 3,812,000	$1,830,000	$ 5,912,000
Earnings (Loss) before Extraordinary Item	$ 86,000	$ (327,000)	$ (358,000)
Net Earnings (Loss)	$ 1,662,000 (2)	$ (327,000)	$ (350,000) (3)
Earnings (Loss) per common share before Extraordinary Item	0.6¢	(9.0¢)	(7.0¢)
Net Earnings (Loss) per common share	11.3¢ (2)	(9.0¢)	(7.0¢) (3)
Working Capital	$44,757,000	$ 716,000	$45,100,000
Exploration and Development Expenditures	$ 4,270,000	$3,406,000	$ 7,923,000

Notes:

(1) The pro-forma summary financial data has been prepared by aggregating the figures on the respective financial statements of Brinco and Conuco for the 12 months ended March 31, 1979.

(2) These figures include an extraordinary gain of $1,576,000 relating to the increase in book value of Brinco's investment in Coseka Resources Limited as a result of Coseka's acquisition in February 1978 of Taiga Resources Limited.

(3) The pro-forma net earnings (loss) and net earnings (loss) per common share of the Merged Company for the 12 months ended March 31, 1979 do not include the extraordinary gain referred to in Note 2.

I. GLOSSARY OF TERMS

In this Information Booklet:

"Amalgamation" means the amalgamation of Conuco, Caballero, 91639 and Exalta to constitute Resources and with reference to a point in time means the time of issue of a certificate of amalgamation with respect thereto pursuant to section 156 of The Companies Act (Alberta);

"Brinco" means Brinco Limited, a company incorporated under the laws of Newfoundland;

"Brinco Common Shares" means common shares without nominal or par value in the capital of Brinco;

"Brinco Preferred Shares" means the class of preferred shares with a par value of $5.50 each in the capital of Brinco, issuable by the directors of Brinco in series having the terms and conditions set out in Part A to the Appendix, and of which the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B will be the first two series;

"Brinco Preferred Shares Series A" means the first series of Brinco Preferred Shares which shall be designated as 7% cumulative convertible redeemable retractable preferred shares series A and shall have the terms and conditions set out in Part B to the Appendix;

"Brinco Preferred Shares Series B" means the second series of Brinco Preferred Shares which shall be designated as convertible retractable preferred shares series B and shall have the terms and conditions set out in Part C to the Appendix;

"Brinco Shares" means collectively the Brinco Common Shares, the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B;

"Brinco Shareholders Meeting" means the Extraordinary General Meeting of shareholders of Brinco to be held on September 24, 1979 in respect of which this Information Booklet is being provided and which is being held for the purposes of, among other things, considering and, if thought fit, approving the execution and delivery by Brinco of the Merger and Amalgamation Agreement and approving the performance by Brinco of its obligations therein contained including, without limitation, the creation of the Brinco Preferred Shares;

"Caballero" means Caballero Exploration Ltd., a company incorporated under the laws of Alberta;

"Conuco" means Conuco Limited, a company continued under the laws of Alberta;

"Conuco Common Shares" means the common shares without nominal or par value in the capital of Conuco;

"Conuco Convertible Preferred Shares" means the convertible redeemable cumulative preferred shares with a nominal or par value of $3.50 each in the capital of Conuco;

"Conuco Shareholders" means collectively the holders of the Conuco Shares (other than 91639), the holders of the common shares without nominal or par value of Caballero and the holders of the common shares without nominal or par value of 91639 (other than Caballero);

"Conuco Shareholders Meetings" means the Annual and Special General Meeting of shareholders of Conuco and the Special General Meeting of holders of Conuco Convertible Preferred Shares to be held on September 26, 1979 in respect of which this Information Booklet is being provided and which are being held for the purposes of, among other things, considering and, if thought fit, adopting the Merger and Amalgamation Agreement and approving the transactions contemplated thereby;

"Conuco Shares" means collectively the Conuco Common Shares and the Conuco Convertible Preferred Shares;

"Exalta" means Exalta Petroleums Ltd., a company incorporated under the laws of Alberta;

"Exchange Privilege" means the exchange privilege to be attached to the Resources Special Shares whereby a holder of such shares may exchange such shares during the Interim Period for Brinco Shares as described under the heading "Merger Steps — Exchange Privilege" on page 7;

"Interim Period" means the period of time commencing upon the Amalgamation and terminating at the close of business on the 60th day thereafter;

"Merged Company" means Brinco and its subsidiary companies as it will exist after completion of the exchange and redemption of Resources Special Shares for Brinco Shares as described under the heading "Merger Steps" commencing on page 6;

"Merger" means the merger of Brinco with Conuco, Caballero, 91639 and Exalta as provided for in the Merger and Amalgamation Agreement;

"Merger and Amalgamation Agreement" means the Merger and Amalgamation Agreement made as of June 13, 1979 among Conuco, Caballero, 91639, Exalta and Brinco providing for the Merger;

"Merging Companies" means, collectively, Conuco, Caballero, 91639, Exalta and Brinco;

"Redemption Obligation" means the obligation of Resources to redeem Resources Special Shares as described under the heading "Merger Steps — Redemption Obligation" on page 8;

"Resources" means the Alberta company to be constituted upon the Amalgamation under the name 'Conuco Resources Limited';

"Resources Special Shares" means the exchangeable redeemable preferred shares without nominal or par value to be constituted as part of the capital of Resources upon the Amalgamation;

"RTZ" means The Rio Tinto-Zinc Corporation Limited;

"RTZ Group" means RTZ and its affiliated companies;

"91639" means Canada 91639 Limited, a company continued under the laws of Alberta; and

"U_3O_8" means the oxide of uranium which is the major component of yellow cake — the usual output of a uranium mill.

All dollar amounts stated in this Information Booklet are in Canadian dollars.

II. THE PROPOSED MERGER

The following description of the Merger is qualified in its entirety by reference to the full text of the Merger and Amalgamation Agreement, conformed copies of which are available for inspection by shareholders of the Merging Companies during normal business hours at the executive offices of Brinco, 10th floor, 20 King Street West, Toronto, Ontario and Conuco, 400, 706 - 7th Avenue S.W., Calgary, Alberta; at the principal office of the transfer agent for the Brinco Common Shares, The Royal Trust Company, in the cities of St. John's, Montreal, Toronto and Calgary; and at the principal office of Conuco's transfer agent, Guaranty Trust Company of Canada, in the cities of Montreal, Toronto and Calgary. Conformed copies of the Merger and Amalgamation Agreement will also be made available to shareholders of the Merging Companies without charge upon request to the secretary of either Conuco or Brinco.

Effect of the Merger

At separate meetings held on June 13 and June 14, 1979 the executive committee of the board of directors of Brinco and the respective boards of directors of Conuco, Caballero, 91639 and Exalta approved the Merger and Amalgamation Agreement.

Pursuant to the Merger and Amalgamation Agreement, a number of steps are proposed to be carried out at the conclusion of which:

(a) Resources, as the successor company to Conuco, Caballero, 91639 and Exalta, will be a wholly-owned subsidiary of Brinco; and

(b) Conuco Shareholders will become shareholders of Brinco by receiving one Brinco Common Share, one Brinco Preferred Share Series A and one Brinco Preferred Share Series B for every three Conuco Shares which such shareholders own, directly or through Caballero and 91639, immediately prior to the Amalgamation.

Immediately upon termination of the Interim Period and completion of the Redemption Obligation:

(a) assuming no conversion of the Brinco Preferred Shares Series A or Brinco Preferred Shares Series B and no exercise of any employee stock options of Brinco, the Conuco Shareholders will collectively hold (on the basis of shares outstanding on August 22, 1979) approximately 12.8% of the Brinco Common Shares and approximately 23.5% of the voting rights attached to the outstanding shares of Brinco of all classes; and

(b) assuming full conversion of the Brinco Preferred Shares Series A and Brinco Preferred Shares Series B but no exercise of any employee stock options of Brinco, the Conuco Shareholders will collectively hold (on the basis of shares outstanding on August 22, 1979) approximately 23.5% of the Brinco Common Shares and approximately 23.5% of the voting rights attached to the outstanding shares of Brinco of all classes.

As Brinco (a Newfoundland company) and Conuco, Caballero, 91639 and Exalta (Alberta companies) are incorporated in different jurisdictions, a direct statutory amalgamation among all of the Merging Companies is not possible. However, by following the series of steps described commencing on page 6, a merger of Brinco with Conuco, Caballero, 91639 and Exalta may be effected with results comparable to that which would have been achieved pursuant to a direct statutory amalgamation.

Merging Companies

Brinco is a Newfoundland public company engaged, through subsidiaries and other interests, in the exploration for and development of natural resources in Canada and the United States, principally uranium, asbestos, zinc, lead, copper, gold, oil and natural gas. Reference is made to Part IV "Brinco" commencing on page 39.

Conuco is an Alberta public company engaged, directly and through subsidiaries, (including Exalta) in the exploration for and development of oil and natural gas properties in Canada and the United States. Reference is made to Part III "Conuco and Affiliated Companies" commencing on page 25.

In addition to Brinco and Conuco, the Merger involves three private Alberta companies, all of which are affiliated with Conuco, namely Caballero, 91639 and Exalta.

As of August 22, 1979, approximately 57.3% (or 3,216,307 Conuco Common Shares) of the outstanding Conuco Common Shares is owned by directors and senior officers of Conuco through 91639. 91639 does not carry on any active business and its sole asset consists of the 3,216,307 Conuco Common Shares. 91639 has four common shares without nominal or par value outstanding (the "91639 Common Shares"), three of which are owned by Caballero, and one of which is owned by a private Alberta company named Riback Investment Corporation Limited ("Riback Investments"), all the outstanding shares of which are owned by Mr. M. Ted Riback, a director of Conuco.

91639 also has outstanding one redeemable non-voting preferred share with a par value of $1.00 (the "91639 Preferred Share") which was purchased at par by Brinco on June 14, 1979 for the purpose of effecting the Merger.

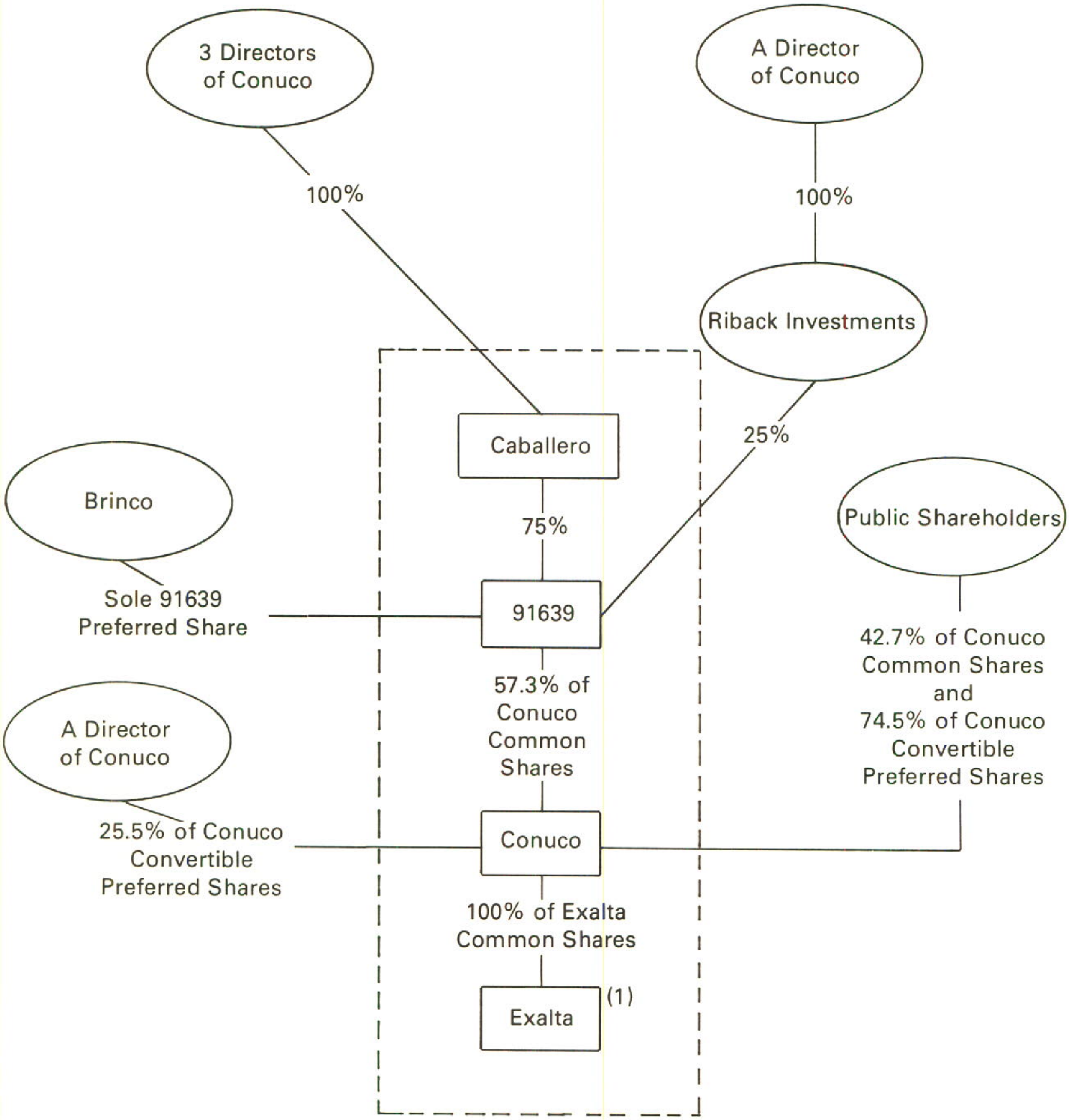
Caballero does not carry on any active business and its sole asset consists of the three 91639 Common Shares referred to above. Caballero has outstanding six common shares without nominal or par value (the "Caballero Common Shares"), two of which are owned by each of three private Alberta companies, which in turn are respectively owned by senior management of Conuco.

Reference is made to the heading "Conuco — Holders of Securities" on page 25 for further information concerning Caballero and 91639.

Conuco owns all the outstanding common shares without nominal or par value of Exalta (the "Exalta Common Shares"). Exalta also has outstanding 1,568,185 Class A 4% cumulative redeemable convertible preferred shares with a par value of $1.00 each (the "Exalta Preferred Shares"), all of which are owned by Riback Investments. Pursuant to the Merger and Amalgamation Agreement, the Exalta Preferred Shares will be redeemed prior to the Amalgamation. Reference is made to Part III "Conuco and Affiliated Companies" commencing on page 25 for further information concerning Exalta.

The following chart depicts the present ownership of Conuco and its affiliated companies as described above.

Present Ownership of Conuco and Affiliated Companies



NOTES:

[dashed box] indicates Amalgamating Companies

(1) All of the outstanding Exalta Preferred Shares are owned by Riback Investments and will be redeemed prior to Amalgamation.

(2) Brinco also owns 40,600 Conuco Common Shares, representing less than 1% of the outstanding Conuco Common Shares and which for purposes of the above chart and the chart and table appearing on page 9 have been treated as being held by the public.

Merger Steps

Amalgamation. Conuco, Caballero, 91639 and Exalta will amalgamate (the "Amalgamation") pursuant to The Companies Act (Alberta) to constitute one continuing Alberta company, to be named 'Conuco Resources Limited' ("Resources"). For the Amalgamation to become effective under The Companies Act (Alberta):

(i) the Merger and Amalgamation Agreement must be adopted, with or without variation, by at least 75% of the votes cast by the holders of Conuco Common Shares and Conuco Convertible Preferred Shares present in person or represented by proxy voting separately as a class at the Conuco Shareholders Meetings and by at least 75% of the votes cast by the respective holders of the Caballero Common Shares, the 91639 Common Shares, the 91639 Preferred Share, the Exalta Common Shares and the Exalta Preferred Shares;

(ii) the Merger and Amalgamation Agreement must be approved by the Supreme Court of Alberta (following written approval by the Registrar of Companies of Alberta); and

(iii) the Registrar of Companies of Alberta must have issued a certificate in respect of the Amalgamation.

All of the directors and senior officers of Conuco intend to vote or cause to be voted in favour of the adoption of the merger and amalgamation agreement, the Conuco Shares, the Caballero Common Shares, the 91639 Common Shares, the Exalta Common Shares and the Exalta Preferred Shares beneficially owned or controlled by them. Reference is made to the headings "Merging Companies" on page 3 and "Conuco — Holders of Securities" on page 25.

Creation and Issue of Brinco Shares. Prior to the Amalgamation becoming effective Brinco will amend its present authorized capital by the creation of 10,000,000 Brinco Preferred Shares issuable in series. To become effective, such amendment to Brinco's capital must be approved by a resolution passed by at least 75% of the votes cast by the holders of Brinco Common Shares present in person or represented by proxy at the Brinco Shareholders Meeting and a copy of such resolution registered by the Registrar of Companies under The Companies Act (Newfoundland). Thornwood Investments Limited ("Thornwood"), which holds approximately 82.5% of the outstanding Brinco Common Shares, intends to vote such shares for the approval of the execution and delivery of the Merger and Amalgamation Agreement and, in particular, the creation of the Brinco Preferred Shares. Following the creation of such shares, the board of directors of Brinco will designate the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B as the first two series of such Brinco Preferred Shares and will conditionally issue and allot such Brinco Preferred Shares Series A and Brinco Preferred Shares Series B, together with a sufficient number of Brinco Common Shares, to provide for the exercise by a holder of Resources Special Shares of the Exchange Privilege and/or the subsequent redemption by Resources of any Resources Special Shares then outstanding pursuant to the Redemption Obligation. The board of directors of Brinco will, at the same time, conditionally allot a sufficient number of Brinco Common Shares against the eventual exercise by a holder of Brinco Preferred Shares Series A and Brinco Preferred Shares Series B of the conversion privileges to be attached to such shares.

Court Approval and Effective Date of Amalgamation. Immediately after the Amalgamation has been approved by the requisite shareholders' votes and the Brinco Preferred Shares Series A and Brinco Preferred Shares Series B have been created, the Merging Companies will jointly apply to the Supreme Court of Alberta for an order approving the Amalgamation subject to the satisfaction of any then unsatisfied conditions to the Amalgamation. It is intended that all shareholders of Conuco, Caballero, 91639 and Exalta will be given adequate advance notice of the time and place of the hearing of the application for such order and that such notice will advise such shareholders of their right to appear at such hearing and to present evidence or testimony with respect to the fairness of the terms and conditions of the Amalgamation and of the exchange of their shares for or into Brinco Shares as contemplated by the Merger and Amalgamation Agreement. The Supreme Court of Alberta will be requested to issue an order which will (i) recite that the Court has considered the fairness to the shareholders of Conuco, Caballero, 91639 and Exalta of the conversion of their respective shares into Resources Special Shares and the exchange of such Resources Special Shares for or into Brinco Shares as provided in the Merger and Amalgamation Agreement, and (ii) contain a finding that no shareholder or creditor of any of Conuco, Caballero, 91639 and Exalta will be adversely affected or prejudiced by the Amalgamation and that all transactions contemplated by the Merger and Amalgamation Agreement are fair to the shareholders of all such companies. If the Amalgamation is approved by the Supreme Court of Alberta and all conditions are satisfied, the Merging Companies will file with the Registrar of Companies of Alberta such final court order and other material as may be required by such Registrar in order that he may issue a certificate making the Amalgamation effective.

Upon the issuance of such certificate, the Merger and Amalgamation Agreement will have full force and effect and (i) Conuco, Caballero, 91639 and Exalta will be amalgamated and continue as one company under the name 'Conuco Resources Limited', as more fully described under the heading "Amalgamated Company" on page 14; and (ii) Resources will possess all the property, rights, privileges and franchises and will be subject to all the liabilities, contracts and debts of each of Conuco, Caballero, 91639 and Exalta.

Share Conversions. Prior to the Amalgamation, Exalta will redeem all outstanding Exalta Preferred Shares at their aggregate par value ($1,568,185) with funds provided for that purpose by Brinco. Upon the Amalgamation becoming effective:

(i) the 91639 Preferred Share held by Brinco will be converted into one common share without nominal or par value of Resources;

(ii) the 91639 Common Shares held by Caballero will be cancelled without repayment of capital;

(iii) the Conuco Common Shares held by 91639 will be cancelled without repayment of capital;

(iv) the Exalta Common Shares held by Conuco will be cancelled without repayment of capital;

(v) the Conuco Shares held by shareholders of Conuco, other than 91639, (the "Conuco Public Shareholders") will be converted into one Resources Special Share for every three Conuco Common Shares or Conuco Convertible Preferred Shares, or any combination thereof;

(vi) the Caballero Common Shares (all held by certain directors and senior officers of Conuco through private Alberta companies) will be converted into Resources Special Shares on the basis of 268,025 Resources Special Shares for every two Caballero Common Shares*; and

(vii) the 91639 Common Share held by Riback Investments will be converted into 268,025 Resources Special Shares**.

Reference is made to the heading "Tables of Conversion" on page 9 for a table illustrating the manner in which shares will be converted upon the Amalgamation.

*This conversion ratio has been determined on the basis of the number of Conuco Shares held indirectly by Caballero through 91639 and is based on the same exchange ratio of one Resources Special Share for every three Conuco Shares as in the case of the Conuco Public Shareholders.

** This conversion ratio has been determined on the basis of the number of Conuco Shares held indirectly by Riback Investments through 91639 and is based on the same share exchange ratio of one Resources Special Share for every three Conuco Shares as in the case of the Conuco Public Shareholders.

Exchange Privilege. For a period ending on the close of business on the 60th day following the Amalgamation (the "Interim Period"), each Resources Special Share, by its terms, may be exchanged by a holder thereof into one Brinco Common Share, one Brinco Preferred Share Series A and one Brinco Preferred Share Series B. Reference is made to Part V "Description of Brinco Shares" commencing on page 56 for a description of the material attributes of the Brinco Shares. Reference is also made to the heading "Exchange of Shares; Share Certificates and Fractional Interests" on page 16 for details on the procedure whereby a holder of Resources Special Shares may exchange his Resources Special Shares for Brinco Shares.

Redemption Obligation. On the day immediately following the termination of the Interim Period (the "Redemption Date"), Resources will redeem all Resources Special Shares then outstanding other than those held by Brinco (the "Remaining Resources Special Shares"), in accordance with their terms, for three unsecured non-interest bearing debentures of Brinco (the "Brinco Debentures") which, by their terms, will be respectively convertible into the same total number of Brinco Common Shares, Brinco Preferred Shares Series A and Brinco Preferred Shares Series B which would have been issued to holders of Remaining Resources Special Shares had they elected to exercise the Exchange Privilege. Resources shall purchase the Brinco Debentures from Brinco with funds provided for that purpose by Brinco by way of Brinco subscribing for additional common shares of Resources immediately prior to the purchase by Resources of such Brinco Debentures.

The principal amount of each Brinco Debenture will be equal to the aggregate of the fair market value of the Brinco Shares into which it is convertible. For purposes of determining the respective principal amounts, the "fair market value" of the Brinco Shares shall be, in the case of a Brinco Preferred Share Series A and a Brinco Preferred Share Series B, $5.50 each (i.e. the par value of each such share) and, in the case of a Brinco Common Share, the average of the closing sales prices (or if there were no sales, the closing bid prices) of a Brinco Common Share on The Toronto Stock Exchange as at the close of business on the five days immediately prior to the Redemption Date.

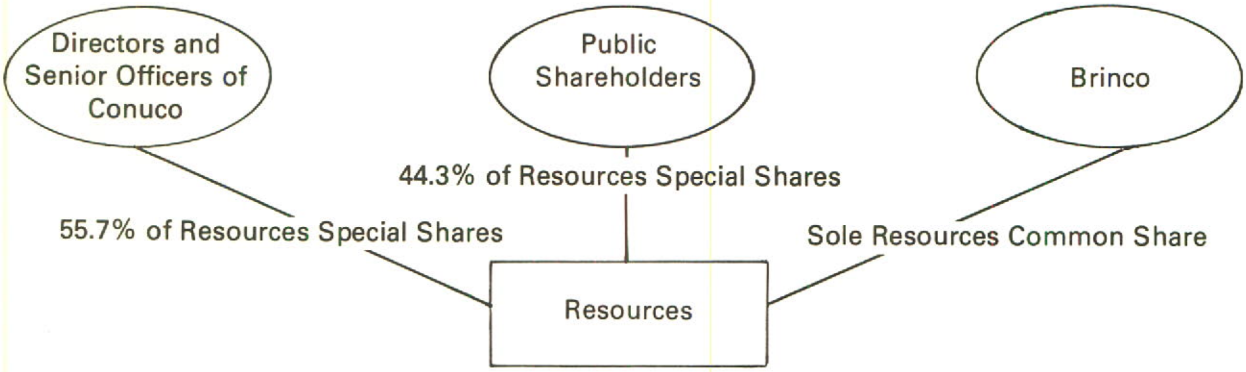
To effect the Redemption Obligation, Resources will transfer the Brinco Debentures, immediately following their issue, to the transfer agent for the Resources Special Shares to be held by it on behalf of the holders of such Remaining Resources Special Shares. The terms of the Brinco Debentures will provide that they will be automatically converted upon their transfer to such transfer agent into one Brinco Common Share, one Brinco Preferred Share Series A and one Brinco Preferred Share Series B for each Remaining Resources Special Share so redeemed with the result that the transfer agent will then hold such Brinco Shares on behalf of the holders of the Remaining Resources Special Shares. The transfer agent will then distribute the Brinco Shares to the holders of Remaining Resources Special Shares, as their interests may appear. Reference is made to the headings "Exchange of Shares; Share Certificates and Fractional Interests" on page 16 and "Amalgamated Company — Transfer Agent and Registrar" on page 15. Reference is also made to the heading "Amalgamated Company — Description of Resources Special Shares" on page 14 for a further description of the material attributes of the Resources Special Shares.

After giving effect to the exercise of the Exchange Privilege and the Redemption Obligation, as described above, the Conuco Shareholders will hold Brinco Shares and Brinco will own all the outstanding shares of Resources.

The following chart depicts the direct and indirect shareholdings of Resources immediately upon the Amalgamation.

Share Ownership of Conuco Resources Limited

Upon Amalgamation



Tables of Conversion

(a) ***Upon the Amalgamation***

The following table illustrates the manner in which shares of Conuco, Caballero, 91639 and Exalta will be converted upon the Amalgamation.

Amalgamating Company	Number and Class of Shares Outstanding Prior to Amalgamation (1)	Shares of Resources Issued Upon Amalgamation (2)
Conuco	2,394,720 Common Shares held by Conuco Public Shareholders	798,240 Special Shares (3)
	3,216,307 Common Shares held by 91639	— (7)
	876,357 Convertible Preferred Shares	292,119 Special Shares (4)
Caballero	6 Common Shares	804,075 Special Shares (5)
91639	1 Common Share held by Riback Investments	268,025 Special Shares
	3 Common Shares held by Caballero	— (7)
	1 Preferred Share	1 Common Share
Exalta	1,231,488 Common Shares	— (7)
	1,568,185 Preferred Shares	— (6)
		TOTAL: 1 Common Share 2,162,459 Special Shares

NOTES:

(1) These figures are given as of August 22, 1979 and do not give effect to any subsequent issue prior to the Amalgamation of Conuco Common Shares as a result of conversion of Conuco Convertible Preferred Shares into Conuco Common Shares (convertible by their terms on a one for one basis) or pursuant to existing options to acquire Conuco Common Shares granted to employees of Conuco (maximum of 148,000 Conuco Common Shares).

(2) The material attributes of the Resources Special Shares are described under the headings "Merger Steps" on page 6 and "Amalgamated Company — Description of Resources Special Shares" on page 14.

(3) To be issued to holders of Conuco Common Shares (other than 91639) on the basis of one Resources Special Share for every three Conuco Common Shares.

(4) To be issued on the basis of one Resources Special Share for every three Conuco Convertible Preferred Shares.

(5) To be issued on the basis of 268,025 Resources Special Shares for every two Caballero Common Shares.

(6) The Merger and Amalgamation Agreement provides that the Exalta Preferred Shares will be redeemed by Exalta prior to the Amalgamation.

(7) The Conuco Common Shares held by 91639, the 91639 Common Shares held by Caballero and all of the issued Exalta Common Shares will be cancelled upon the Amalgamation.

(b) ***Upon Exchange and Redemption of Resources Special Shares***

The following table illustrates the manner in which Resources Special Shares will be exchanged into or redeemed for Brinco Shares. For details of the principal holders of securities of Brinco after the Merger see page 52.

Description (1)	Brinco Shares Outstanding Prior to Amalgamation (2)	Brinco Shares to be Issued Upon Exchange and Redemption (2) (3) (4)	Brinco Shares Outstanding on Completion of Exchange and Redemption (3)
Brinco Common Shares	14,675,018	2,148,928	16,823,946
Brinco Preferred Shares Series A	—	2,148,928	2,148,928
Brinco Preferred Shares Series B	—	2,148,928	2,148,928

NOTES:

(1) The material attributes of the Brinco Shares are described under the heading "Description of Brinco Shares" commencing on page 56.

(2) These figures do not give effect to the issue of any Conuco Shares subsequent to August 22, 1979 and prior to the Amalgamation pursuant to existing options to acquire Conuco Common Shares granted to employees of Conuco (convertible upon the Amalgamation, if such options are previously exercised, into a maximum of 49,333 Resources Special Shares) or to the issue of any Brinco Common Shares prior to the completion of the exchange and redemption of Resources Special Shares pursuant to existing options to acquire Brinco Common Shares granted to employees of Brinco (maximum of 147,000 Brinco Common Shares). As to arrangements made with employees of Conuco who hold options to acquire Conuco Common Shares see the heading "Stock Options" on page 64.

(3) These figures are given as of August 22, 1979 and do not give effect to any conversion by holders of Brinco Preferred Shares Series A and Brinco Preferred Shares Series B into Brinco Common Shares between the Amalgamation and the completion of the exchange and redemption of Resources Special Shares.

(4) To be issued on the basis of one Brinco Common Share, one Brinco Preferred Share Series A and one Brinco Preferred Share Series B for every one Resources Special Share other than the 13,533 Resources Special Shares into which the 40,600 Conuco Common Shares held by Brinco will be converted upon the Amalgamation.

Reasons for Merger

For some time Brinco has been engaged in the exploration for and development of natural resources, principally uranium and other minerals and has sought to extend these activities into exploration for and development of oil and natural gas properties. From 1964 until December 1978 Brinco was engaged in exploration for oil and natural gas in the Province of Newfoundland with various partners. At present Brinco's involvement in the oil and gas industry is by way of a 25.3% equity interest in Coseka Resources Limited, a Canadian oil and gas company.

Conuco has reached the stage in its development where its capital requirements are such that significantly large amounts of funds are necessary in order to maintain and profitably increase its growth rate in the oil and gas industry.

The respective boards of directors of Conuco and Brinco consider the Merger to be advantageous to both the Conuco Shareholders and the shareholders of Brinco and that the resulting Merged Company will be a stronger and more efficient entity in the Canadian natural resource industry than either Conuco or Brinco is at present.

The board of directors of Conuco considers that the financial resources of Brinco will enable the Merged Company to meet its future capital requirements and provide the Merged Company with a greater ability to operate as a broadly based Canadian resource company principally in the exploration for and development and production of oil and natural gas, uranium, and other mineral resources. An important factor in this consideration is Brinco's undertaking to Conuco to spend an aggregate of approximately $25,000,000 on an accelerated oil and gas exploration and development programme, principally in Canada, over five years following the Amalgamation, in reasonably equal amounts per year. This commitment is subject to the condition that Brinco will not be committed to spend the entire portion of such funds allocated to any year during such year should changes occur in the oil and gas industry or in the markets for oil and gas which, in Brinco's reasonable opinion, make the expenditure of such amounts undesirable. Reference is also made to the heading "Approval under the Foreign Investment Review Act" on page 15.

Brinco's board of directors considers that the present property and asset base of Conuco and the experience of Conuco's management provide an important foundation for achieving the objectives of the Merged Company as outlined above.

Exchange Ratio and Financial Advisor's Opinion

The terms of the Merger, including the ratios for the eventual conversion of the Conuco Shares held directly or indirectly by the Conuco Shareholders into Brinco Shares, were negotiated by the respective managements of Conuco and Brinco and were unanimously approved by the executive committee of the board of directors of Brinco and by the respective boards of directors of each of the other Merging Companies after careful consideration of the terms of the Merger, analysis of the effect thereof on the respective opportunities and prospects for Conuco and Brinco and review of such available information regarding the others of Brinco, Exalta, 91639, Caballero and Conuco, as the case may be, as was considered advisable in the circumstances.

In the course of negotiations, the board of directors of Conuco considered, among other things, a valuation by McLeod Young Weir Limited ("McLeod"), the financial advisor to Brinco, in respect of the outstanding Brinco Common Shares as of April 30, 1979.

In order to assist shareholders of both companies in their consideration of the Merger, the boards of directors of Brinco and Conuco requested McLeod to furnish an opinion to the Conuco Shareholders as to whether the proposed exchange ratio of the Conuco Shares into Brinco Shares is fair and equitable to them from a financial point of view and to advise the shareholders of Brinco whether in the opinion of McLeod the proposed transaction includes sufficient benefits to the shareholders of Brinco to compensate for any dilution to their existing shareholdings. The opinions of McLeod are expressed in the letter appearing on page 93.

In arriving at its opinions, McLeod had regard to the underlying asset values of each of Conuco and Brinco and the stock market performance of the common shares of each company. In particular, McLeod examined reports of two independent petroleum engineering consulting firms with respect to the reserves of Conuco, namely a report as of May 31, 1979 by D & S Petroleum Consultants (1974) Ltd. and a report as of March 31, 1979 by McDaniel Consultants (1965) Ltd. Reference is made to the heading "Conuco — Reserves" on page 34.

Trading Pattern of Brinco Common Shares and Conuco Common Shares

The following table summarizes the market price ranges and volumes of trading of Brinco Common Shares and Conuco Common Shares on the Toronto and Montreal stock exchanges (and includes the relevant information for Conuco on the Alberta Stock Exchange).

	BRINCO			CONUCO		
1978	High ($)	Low ($)	Volume (Shares)	High ($)	Low ($)	Volume (Shares)
August	8 1/8	4 7/8	217,712	4 1/8	3 1/4	36,555
September	9	6	149,369	4 1/8	3 3/8	102,725
October	8 5/8	6	54,598	5 1/4	4	112,730
November	7 3/8	6 1/8	40,499	5 1/2	4	339,980
December	7 7/8	6	43,132	6 1/8	4 7/8	83,371
1979						
January	7 3/4	6 5/8	39,332	6 1/4	5 1/4	465,418
February	8 1/8	6 5/8	65,742	5 3/8	4 5/8	61,591
March	9 1/2	7 7/8	213,587	6 1/2	5	235,604
April	9	7 1/8	50,143	6 1/2	5 5/8	138,647
May (1)	8 1/2	7 1/8	111,163	6 3/8	5	257,676
June	8 3/4	7 1/2	60,231	5 3/4	5	144,740
July	8 1/8	7 1/8	38,209	5 1/2	5	70,873
August (through August 22)	8 3/8	7 1/4	42,832	5 1/4	5	51,320

NOTES:

(1) The closing prices of Brinco Common Shares and Conuco Common Shares on The Toronto Stock Exchange on May 2, 1979, the last day preceding the announcement of the Merger, were $7 1/8 and $6 1/4 respectively.

(2) Reference is made to the heading "Brinco — Ownership and Trading in Securities of Conuco and its Affiliates" on page 54.

Rights of Dissentient Conuco Shareholders

Section 156 of The Companies Act (Alberta) requires that, unless the Supreme Court of Alberta otherwise directs, Conuco, Caballero, 91639 and Exalta shall each notify, in such manner as the Court may direct, each of its shareholders who dissents from the Amalgamation, of the time and place at which the Merging Companies intend to apply for an order approving the Amalgamation. The Act also provides that, upon the application, the Court shall hear and determine the matter and may approve the Merger and Amalgamation Agreement as presented or subject to compliance with such terms and conditions as it thinks fit, having regard to the rights and interests of all parties including dissentient shareholders and creditors. Subject to the foregoing, dissentient shareholders will not have any right under Alberta law to have their shares appraised and to receive the appraised cash value thereof.

Rights of Dissentient Shareholders of Brinco

Under The Companies Act (Newfoundland) a shareholder of Brinco who votes against the approval of the execution and delivery of the Merger and Amalgamation Agreement or the creation of the Brinco Preferred Shares will not have any right to have his shares in Brinco appraised and to receive the cash value thereof.

Conditions, Amendments and Termination Provisions

Pursuant to the Merger and Amalgamation Agreement, the obligations of the Merging Companies to cause the Amalgamation and the other transactions contemplated by the Merger and Amalgamation Agreement to be carried out are subject to certain conditions, including, among others, that:

(a) on or before September 30, 1979, or such later date as may be mutually agreed upon by Conuco and Brinco, Brinco shall have obtained approval pursuant to the Foreign Investment Review Act (Canada) of the acquisition of control of Resources by Brinco pursuant to the terms of the Merger and Amalgamation Agreement, on terms and conditions reasonably satisfactory to Brinco and Conuco. Reference is made to the heading "Approval under the Foreign Investment Review Act" on page 15;

(b) before the Amalgamation, Exalta shall have redeemed all the outstanding Exalta Preferred Shares with funds provided for that purpose by Brinco;

(c) the representations and warranties of each Merging Company contained in the Merger and Amalgamation Agreement shall be true and correct in all material respects immediately prior to the Amalgamation;

(d) all action required to be taken by or on the part of each Merging Company prior to the Amalgamation shall have been taken;

(e) the Merger and Amalgamation Agreement and the transactions contemplated thereby (including in particular, in the case of Conuco, Caballero, 91639 and Exalta, the Amalgamation) shall have been adopted by the respective shareholders of Conuco, Caballero, 91639 and Exalta in accordance with the requirements of The Companies Act (Alberta) and any applicable directions of the Supreme Court of Alberta;

(f) the Merger and Amalgamation Agreement and the transactions contemplated thereby (including in particular, the creation of the Brinco Preferred Shares) shall have received all necessary approvals of the holders of Brinco Common Shares;

(g) an Order of the Supreme Court of Alberta approving the Merger and Amalgamation Agreement and, in particular, the Amalgamation, shall have been granted on terms and conditions reasonably satisfactory to Brinco and Conuco;

(h) where required, the consent to the Amalgamation of all other parties to joint ventures, partnerships or participation or pooling arrangements shall have been obtained before the Amalgamation;

(i) Brinco shall be satisfied with the title of each of Conuco, Caballero, 91639 and Exalta to its respective assets and each of Conuco, Caballero, 91639 and Exalta shall be satisfied with the title of Brinco to its assets; and

(j) certain officers' certificates and legal opinions shall have been delivered.

At any time prior to the Amalgamation, the parties may (without further authorization by their respective shareholders) by written agreement, extend the time for the performance of any of the obligations of the Merging Companies, waive any inaccuracies or modify any representation contained in the Merger and Amalgamation Agreement or in any document delivered pursuant thereto or waive compliance with or modify any of the covenants contained in the Merger and Amalgamation Agreement and waive or modify performance of any of the obligations of the Merging Companies therein contained.

The Merger and Amalgamation Agreement may be terminated by mutual agreement of the Merging Companies and the respective boards of directors of the Merging Companies may, before the Amalgamation and without further action on the part of their respective shareholders, authorize any such termination.

Amalgamated Company

Upon the Amalgamation, Resources will be constituted as the continuing company of each of Conuco, Caballero, 91639 and Exalta with objects and articles of association virtually identical with those of Conuco.

Authorized and Issued Capital. The authorized capital of Resources will consist of 100,000 common shares without nominal or par value and 3,000,000 exchangeable redeemable preferred shares without nominal or par value (the "Resources Special Shares"). The issued capital of Resources upon the Amalgamation will be one common share and 2,162,459 Resources Special Shares (subject to increase to a maximum of 2,247,594 as a result of the issue of additional Conuco Common Shares prior to the Amalgamation pursuant to existing options granted to employees of Conuco.)

Description of Resources Special Shares. In addition to the Exchange Privilege and Redemption Obligation the other material preferences, rights, conditions, restrictions, limitations and prohibitions to be attached to the Resources Special Shares are as summarized below:

(i) *Ranking:* The Resources Special Shares will rank equally with the common shares of Resources with respect to distribution of assets in the event of the liquidation, dissolution or winding up of Resources or other distribution of assets among its shareholders for the purpose of winding up its affairs, whether voluntary or involuntary. The holders of Resources Special Shares shall be entitled to receive a dividend of not less than $1.00 during each calendar year, if, as and when declared by the directors, in priority to any dividends declared and payable on the common shares of Resources.

(ii) *Restriction on Retirement of Common Shares:* So long as any Resources Special Shares are outstanding, Resources shall not, without the prior approval of the holders of Resources Special Shares, call for redemption or reduce or otherwise retire for value any common shares of Resources or any other shares of any class ranking on a parity with or junior to the Resources Special Shares.

(iii) *Redemption:* Resources may, subject to The Companies Act (Alberta), redeem at any time all or from time to time any part of the outstanding Resources Special Shares held by Brinco or any affiliate of Brinco on payment of the amount paid up on the Resources Special Shares.

(iv) *Voting Rights:* The holders of Resources Special Shares shall not be entitled to receive notice of, to attend or to vote at meetings of shareholders of Resources unless Resources fails to redeem on the Redemption Date any Remaining Resources Special Shares, whereupon such holders shall be entitled to one vote in respect of each Remaining Resources Special Share held.

(v) *Modification and Consents:* The rights, conditions, restrictions, limitations and prohibitions referred to above may be deleted or modified only with the approval of the holders of common shares of Resources and of Resources Special Shares. Any such authorization, consent or approval to be given by the holders of Resources Special Shares and common shares of Resources will require the affirmative vote of not less than 75% of the votes cast by the holders of the Resources Special Shares and the common shares of Resources voting separately as a class at a meeting of the holders of Resources Special Shares and common shares of Resources called for that purpose.

Directors and Officers. The Merger and Amalgamation Agreement provides for a board of five directors of Resources. The names of the persons who will be the first directors of Resources, their respective occupations, present positions and places of residence are as follows:

Name	Occupation and Present Position	Place of Residence
Robert Baldwin Dale-Harris	Executive, Director and Chairman of the Board, Brinco	Uxbridge, Ontario
Thomas Nelson Dirks	Executive, Director and Vice-President, Operations, Conuco	Calgary, Alberta
James Robert Kassube	Executive, Director and Vice-President, Exploration, Conuco	Calgary, Alberta
Clifford Alan Smith	Executive, Director and President, Conuco	Calgary, Alberta
Hugh Robin Snyder	Executive, Director and President and Chief Executive Officer, Brinco	Toronto, Ontario

It is anticipated that the executive officers of Resources will be as follows:

Name	Office
Hugh Robin Snyder	Chairman of the Board and Chief Executive Officer
Clifford Alan Smith	President
Thomas Nelson Dirks	Vice-President, Operations
James Robert Kassube	Vice-President, Exploration

Transfer Agent and Registrar. It is intended that the Transfer Agent and Registrar for the Resources Special Shares will be Guaranty Trust Company of Canada at its principal office in the cities of Montreal, Toronto and Calgary. Guaranty Trust Company of Canada is the transfer agent for the Conuco Shares.

Approval under the Foreign Investment Review Act

As Brinco is a 'non-eligible person' as defined in the Foreign Investment Review Act (Canada) ("FIRA") and consummation of the transactions contemplated by the Merger and Amalgamation Agreement will result, in effect, in the acquisition by Brinco of control of Conuco (a 'Canadian business enterprise' as defined in FIRA), prior approval under FIRA to such acquisition of control by Brinco is required as a condition to the Merger taking place. In granting such approval, the Governor-in-Council (the Federal Cabinet) must first determine that such acquisition is or is likely to be of significant benefit to Canada, having regard to all of the factors to be taken into account under FIRA for that purpose.

On May 16, 1979 Brinco applied to the Foreign Investment Review Agency for approval of the proposed acquisition of control resulting from the Merger. In connection with such application, Brinco intends to submit to the Minister of Industry, Trade and Commerce (the Minister responsible for administering FIRA) certain undertakings of Brinco to Her Majesty the Queen in Right of Canada, which will be conditional upon the approval of the application under FIRA and which will include among others, the following:

(i) Brinco shall provide from its treasury during the five years following the Amalgamation, in reasonably equal annual amounts, a minimum of $17,500,000 in the aggregate for exploration for oil and natural gas properties in Canada and a minimum of $7,500,000 in the aggregate for development of oil and natural gas properties in Canada;

(ii) Brinco shall reinvest all available cash flow generated from its Canadian oil and natural gas operations in the exploration for and development of oil and natural gas properties in Canada during the period 1980 to 1983;

(iii) Brinco shall provide from its treasury a minimum of $6,000,000 during the period from January 1, 1980 to December 31, 1983 for exploration for hard minerals in Canada and shall use its best efforts to secure matching expenditures for such purposes from its participating partners, in proportion to their respective equity interests held;

(iv) Brinco and its joint venture partners shall spend an aggregate of $160 million on development of the Kitts and Michelin uranium deposits in Labrador during the period 1980 to 1982. Reference is made to the heading "Brinco — Kitts and Michelin Deposits" on page 42; and

(v) Brinco shall spend an aggregate of $5.8 million on evaluation of the asbestos deposit project of Abitibi Asbestos Mining Company Limited, a subsidiary of Brinco, during the period 1980 to 1983 provided that Brinco obtains additional equity participation in such prospect for fair value. Reference is made to the heading "Brinco — Asbestos — Abitibi Asbestos Mining Company Limited" on page 46.

The fulfilment of the undertakings referred to as items (iv) and (v) above are subject to the existence of favourable market and commercial conditions which would provide an acceptable equity return and which would enable such projects to proceed within the aforementioned time periods.

Reference is made to the headings "Conditions, Amendments and Termination Provisions" on page 13, "Brinco — Central Labrador Mineral Belt — Project Development" on page 43, "Brinco — Legislation and Controls" on page 48 and "Brinco — Undertaking Relating to Foreign Ownership" on page 53.

Exchange of Shares; Share Certificates and Fractional Interests

(a) ***Upon the Amalgamation***

Upon the Amalgamation, the Conuco Shareholders will become holders of Resources Special Shares by operation of law without any further action on their part. Resources will not issue any share certificates representing Resources Special Shares. The share certificates held by the Conuco Shareholders and representing Conuco Shares, Caballero Common Shares or a 91639 Common Share, as the case may be, shall be deemed to represent for all purposes Resources Special Shares on the bases of conversion described under the heading "Merger Steps — Share Conversions" on page 7 and in the Table of Conversion which appears on page 9.

No fractional Resources Special Shares shall be issued. In lieu thereof, as soon as practicable following the Amalgamation, Resources shall pay to Conuco Shareholders who would otherwise have been entitled to receive a fraction of a Resources Special Share pursuant to the conversion basis referred to above an amount in cash equal to the value of such fraction based upon an assumed value of $21.00 for each Resources Special Share.

(b) ***Pursuant to Exchange Privilege***

A Conuco Shareholder who wishes to exercise the Exchange Privilege in respect of his Resources Special Shares may do so by giving notice in writing to Guaranty Trust Company of Canada, at its principal office in one of the cities of Calgary, Toronto or Montreal, accompanied by such Resources Special Shares (which, as described above, will be represented by a Conuco, Caballero or 91639 share certificate) in respect of which the holder desires to exercise the Exchange Privilege.

Immediately after the Amalgamation, a form of letter of transmittal containing instructions with respect to the exercise of the Exchange Privilege will be furnished to each Conuco Shareholder.

Shareholders who exercise the Exchange Privilege in accordance with such instructions shall be entitled to receive from Guaranty Trust Company of Canada certificates representing the Brinco Shares for which the Resources Special Shares are exchanged. In the event a shareholder elects to exercise the Exchange Privilege in respect of only part of his Resource Special Shares, interim share certificates for the Resources Special Shares not so exchanged will be issued by Resources and will be obtainable from Guaranty Trust Company of Canada.

(c) ***Pursuant to Redemption Obligation***

Shareholders who do not elect to exercise the Exchange Privilege but rather wait to have their Resources Special Shares redeemed pursuant to the Redemption Obligation shall receive from Guaranty Trust Company of Canada, forthwith after redemption, certificates representing the same aggregate number of Brinco Common Shares, Brinco Preferred Shares Series A and Brinco Preferred Shares Series B to which each such holder would have been entitled had such holder exercised the Exchange Privilege. Nothwithstanding any delay in the delivery to such holders of certificates representing such Brinco Shares, they shall be treated for all purposes as the holders of such Brinco Shares from and after the date of redemption.

Brinco has agreed to provide Guaranty Trust Company of Canada at its principal office in the cities of Calgary, Toronto and Montreal with share certificates sufficient to represent the Brinco Shares to be delivered in connection with the Exchange Privilege and the Redemption Obligation.

Reference is made to the heading "Amalgamated Company — Description of Resources Special Shares" on page 14.

Over the Counter Market for Resources Special Shares

Because no share certificates representing Resources Special Shares will be issued upon the Amalgamation (except in the case of partial exercises of the Exchange Privilege as described above) and since the Resources Special Shares will only be outstanding for the Interim Period, the Merging Companies do not intend to apply for the listing and posting for trading of the Resources Special Shares on any stock exchange. Conuco intends to apply for the delisting of the Conuco Common Shares from the Alberta, Toronto and Montreal Stock Exchanges effective upon the Amalgamation. In order to accommodate any trading of Resources Special Shares which may occur during the Interim Period, Conuco will engage McLeod Young Weir Limited to establish and maintain an "over the counter market" for the trading of Resources Special Shares during the Interim Period.

Income Tax Consequences

Canada

The following comments are confined to the Income Tax Act (Canada) (the "Act") and to Conuco Shareholders for whom the Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, represent capital property under the Act. Generally speaking, the Conuco Shares, Caballero Common Shares and 91639 Common Share will represent capital property to a Conuco Shareholder unless a disposition of the shares would give rise to income from the carrying on of a business of trading and dealing in shares or from an adventure in the nature of trade.

The following comments are intended as a brief summary of the Canadian federal income tax consequences and Conuco Shareholders should consult their own tax advisors having regard to their particular circumstances. In particular, Conuco Shareholders who may be liable to tax under the provisions of Quebec income tax legislation or foreign tax legislation and Conuco Shareholders for whom the Conuco Shares, Caballero Common Shares or 91639 Common Share are not capital property should obtain further tax advice.

McCarthy & McCarthy, Toronto, Ontario, counsel for Brinco and Davies, Ward & Beck, Toronto, Ontario, special counsel for Conuco are of the opinion that the following summary is a fair and adequate explanation of the relevant income tax consequences pursuant to the Act of the proposed transactions. An advance income tax ruling has been received from Revenue Canada, Taxation concerning certain of the income tax consequences of the proposed transactions pursuant to the Act and, where applicable, the comments which follow are based upon this ruling.

General

Generally, where a Conuco Shareholder acquires Brinco Shares following the Amalgamation pursuant to his exercise of the Exchange Privilege he will not be required to account for tax on any gain until he disposes of or is deemed to have disposed of Brinco Shares other than by way of conversion of Brinco Preferred Shares into Brinco Common Shares. His adjusted cost base of Conuco Shares will flow through to his Brinco Shares.

Where a Conuco Shareholder does not exercise the Exchange Privilege, deemed taxable dividends and capital gains or losses may arise upon his acquisition of Brinco Shares pursuant to the Redemption Obligation.

Where Brinco Preferred Shares are redeemed for cash, deemed taxable dividends and/or capital gains or losses may have to be taken into account in the taxation year in which the redemption occurs.

A more complete explanation of the Canadian income tax consequences follows.

The Amalgamation

A Conuco Shareholder will realize neither a capital gain nor a capital loss as a result of the Amalgamation.

The cost of the Resources Special Shares received by a Conuco Shareholder on the Amalgamation will be the adjusted cost base (as defined in the Act) of his Conuco Shares, Caballero Shares or 91639 Common Share, as the case may be, immediately before the Amalgamation.

Transitional rules which would permit certain Conuco Shareholders to use the " tax-free zone" method in determining the adjusted cost base to them of their Conuco Shares, Caballero Shares or 91639 Common Share, as the case may be, will continue to be available to such shareholders in determining the adjusted cost base to them of the Resources Special Shares received by them on the Amalgamation.

Exchange Privilege

A Conuco Shareholder who exercises the Exchange Privilege may choose to regard the exchange of Resources Special Shares for Brinco Shares as either a taxable or non-taxable transaction.

The exercise of the Exchange Privilege will be regarded as a non-taxable transaction for each Conuco Shareholder who does not include in his return of income for his taxation year in which the share exchange takes place any portion of any capital gain or loss arising on the disposition of his Resources Special Shares for Brinco Shares pursuant to the Exchange Privilege.

His cost of the Brinco Preferred Shares Series A, the Brinco Preferred Shares Series B and the Brinco Common Shares received pursuant to the exercise of the Exchange Privilege will be the proportion of his adjusted cost base of his Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, which the respective fair market values, at the date of the exercise of the Exchange Privilege, of his Brinco Preferred Shares Series A, Brinco Preferred Shares Series B and Brinco Common Shares so acquired are of the fair market value, at the date of such exercise, of all the Brinco Shares so acquired. Where the transitional rules would permit such a Conuco Shareholder to use the "tax-free zone" method in determining the adjusted cost base to him of his

Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, the transitional rules will continue to be available to such a shareholder in determining the adjusted cost base to him of such Brinco Preferred Shares Series A, Brinco Preferred Shares Series B and Brinco Common Shares.

The exercise of the Exchange Privilege will be regarded as a taxable transaction for each Conuco Shareholder who chooses to include in his return of income for his taxation year in which the exchange takes place any portion of any capital gain or loss arising on the disposition of his Resources Special Shares for Brinco Shares pursuant to the Exchange Privilege. His proceeds of disposition for his Resources Special Shares will be the fair market value of the Brinco Shares at the date of exercise of the Exchange Privilege and the cost to him of the Brinco Shares so acquired will be such fair market value.

Redemption of Resources Special Shares

A Conuco Shareholder who does not exercise the Exchange Privilege and accordingly receives Brinco Shares pursuant to the Redemption Obligation will be deemed to have received a taxable dividend equal to the amount by which the fair market value of the Brinco Shares acquired by him on the redemption of his Resources Special Shares exceeds the aggregate paid-up capital for purposes of the Act of the Resources Special Shares into which his Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, were exchanged on the Amalgamation. Immediately following the Amalgamation, Conuco Shareholders will be advised in writing of the amount of the paid-up capital of the Resources Special Shares.

In addition, a Conuco Shareholder may realize a capital gain or a capital loss as a result of the redemption of his Resources Special Shares. Where the paid-up capital for purposes of the Act of the Resources Special Shares into which his Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, are exchanged on the Amalgamation exceeds the adjusted cost base to him of such Resources Special Shares, he will realize a capital gain equal to such excess at the time of redemption. Where the adjusted cost base to him of his Resources Special Shares exceeds the paid-up capital for purposes of the Act of such Resources Special Shares, he will realize a capital loss equal to such excess.

Where a Conuco Shareholder is a corporation, any capital loss, computed on the above basis, realized by it on the redemption of its Resources Special Shares may, in certain circumstances, be reduced for purposes of the Act by dividends received by it on its Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, or deemed to have been received by it upon the redemption of its Resources Special Shares.

The cost of Brinco Shares received by a Conuco Shareholder pursuant to the Redemption Obligation will be the respective fair market values of the Brinco Shares on the Redemption Date.

Conversion of Brinco Preferred Shares into Brinco Common Shares

A shareholder will realize neither a capital gain nor a capital loss as a result of the conversion by him of his Brinco Preferred Shares Series A or Brinco Preferred Shares Series B into Brinco Common Shares.

Where a former Conuco Shareholder converts his Brinco Preferred Shares Series A or Brinco Preferred Shares Series B into Brinco Common Shares, the adjusted cost base to him of the Brinco Common Shares so acquired will be the adjusted cost base to him of his Brinco Preferred Shares Series A or Brinco Preferred Shares Series B so converted.

Redemption of Brinco Preferred Shares for Cash

Any amount received by a former Conuco Shareholder on the redemption for cash of his Brinco Preferred Shares Series A or Brinco Preferred Shares Series B in excess of $5.50 per share will constitute a taxable dividend to such former Conuco Shareholder.

In addition, the redemption for cash of Brinco Preferred Shares Series A or Brinco Preferred Shares Series B will constitute a disposition for purposes of the Act and may give rise to a capital gain or capital loss. Where the adjusted cost base to the former Conuco Shareholder of his shares to be redeemed is less than $5.50 per share, he will realize a capital gain per share equal to the amount by which $5.50 exceeds such adjusted cost base. Where the adjusted cost base to the former Conuco Shareholder of his shares to be redeemed is greater than $5.50 per share, the former Conuco Shareholder will realize a capital loss per share equal to the amount by which the adjusted cost base exceeds $5.50.

Where a former Conuco Shareholder is a corporation, any capital loss, computed on the above basis, may, in certain circumstances, be reduced for purposes of the Act by dividends received by it on its Conuco Shares, Caballero Common Shares or 91639 Common Share, as the case may be, or deemed to have been received by it upon the redemption of its Brinco Preferred Shares Series A or Brinco Preferred Shares Series B.

A copy of the advance tax ruling from Revenue Canada, Taxation referred to above may be examined during normal business hours by Conuco Shareholders and their tax advisors at the principal offices of Conuco, 400, 706-7th Avenue S.W., Calgary, Alberta and at the principal office of Conuco's transfer agent, Guaranty Trust Company of Canada, in the cities of Calgary, Toronto and Montreal.

United States

The following comments are confined to the United States Internal Revenue Code (the "Code") and to shareholders of Conuco who are United States taxpayers. They are intended as a brief summary of the U.S. federal income tax consequences of the proposed Merger and shareholders of Conuco who may be liable under the Code should consult their own tax advisors having regard to their particular circumstances.

In order to establish the United States federal income tax consequences of the Merger to those shareholders of Conuco who are United States taxpayers, Conuco will apply to the Internal Revenue Service for a ruling to the effect that the Merger will constitute a tax-free reorganization under Section 368 of the Code.

Cahill Gordon and Reindel, New York, United States counsel to Conuco in connection with the Merger, while unable to express an unqualified opinion, have advised as follows in respect of United States tax consequences to holders of Conuco Shares who are United States taxpayers:

The Merger

If the requested ruling is obtained, the exchange by a shareholder of his Conuco Shares for Resources Special Shares upon the Amalgamation, the subsequent exchange of Resources Special Shares into Brinco Shares pursuant to the Exchange Privilege or their redemption for Brinco Shares pursuant to the Redemption Obligation should be tax-free transactions. The aggregate basis of the Brinco Shares in the hands of the shareholder would be the same as the adjusted basis of the Conuco Shares previously held. Such basis will be allocated to the Brinco Shares in accordance with the relative fair market values of the three classes of Brinco Shares. However, the Internal Revenue Service might assert that the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B are to be characterized as "Section 306 stock". Ordinarily, a disposition of "Section 306 stock" will produce ordinary income, but under some circumstances it will produce capital gain income.

Conversion of Brinco Preferred Shares into Brinco Common Shares

A shareholder will realize neither a capital gain nor a capital loss as a result of the conversion by him of his Brinco Preferred Shares Series A or Brinco Preferred Shares Series B into Brinco Common Shares if he files notice of the conversion with his tax return for the year in which the conversion takes place in the same manner as is indicated below under "General", within the time therein referred to.

Redemption of Brinco Preferred Shares for Cash

Redemption of Brinco Preferred Shares for cash will constitute a disposition of such shares for purposes of the Code. As is indicated under the heading "The Merger" on page 20, such a disposition may give rise to ordinary income or loss, rather than capital gain income or capital loss.

General

Because of the complexity of issues involved, it is not certain that the Internal Revenue Service will issue the requested ruling and the transactions contemplated by the Merger and Amalgamation Agreement may give rise to a taxable disposition of Conuco Shares in respect of which a gain or loss may be recognized. Shareholders concerned will be advised by the Merged Company in due course, as to whether or not the ruling has been issued.

Assuming that a favourable ruling is received, in order to have that ruling apply, each of the Conuco Shareholders who is a United States taxpayer must file with his District Director of Internal Revenue, on or before the last day for filing his federal income tax return (determined by taking into account any extensions of time therefor) for the year in which the reorganization is completed, the notice required by Temporary Regulation Section 7.367 (b) - 1(c). Any such United States shareholder of Conuco who fails to file the necessary notice may be denied the benefit of any favourable United States federal income tax ruling issued in connection with the proposed transaction. Shareholders may obtain a copy of the necessary notice to be filed with the Internal Revenue Service by sending a written request therefor to the Secretary, Brinco Limited, 20 King Street West, Toronto, Ontario, M5H 1C4.

Rights of Conuco Shareholders as Shareholders of Brinco

As stated above, the Merger will result, in effect, in the Conuco Shareholders (presently all shareholders of Alberta companies) becoming shareholders of Brinco, a Newfoundland company. The following are among the principal similarities and differences between the rights of the Conuco Shareholders as shareholders of Conuco and their rights as shareholders of Brinco:

(i) *Shareholders meeting*: Under Alberta law the holders of 10% or more of the voting shares of a company may require the holding of a shareholders meeting. Brinco's Articles of Association have a similar provision.

(ii) *Amending the Memorandum of Association:* The Memorandum of Association of both an Alberta company and a Newfoundland company may generally be amended only by 75% of the votes cast at a meeting of shareholders called for such purpose. In Alberta, confirmation by an order of the Supreme Court of Alberta is required in most instances. In Newfoundland, the Supreme Court of Newfoundland must confirm amendments to reduce capital or to alter objects of the company. In both provinces, any such amendment which affects the rights of the holders of any class of shares as a class must be confirmed by 75% of the votes cast at a meeting of the shareholders of such class. In Alberta, in some cases, a majority in numbers of the shareholders is also required.

(iii) *Amending or repealing Articles of Association*: Under both Alberta and Newfoundland law, the Articles of Association of a company may generally be amended or repealed only by 75% of the votes cast at a meeting of shareholders called for such purpose.

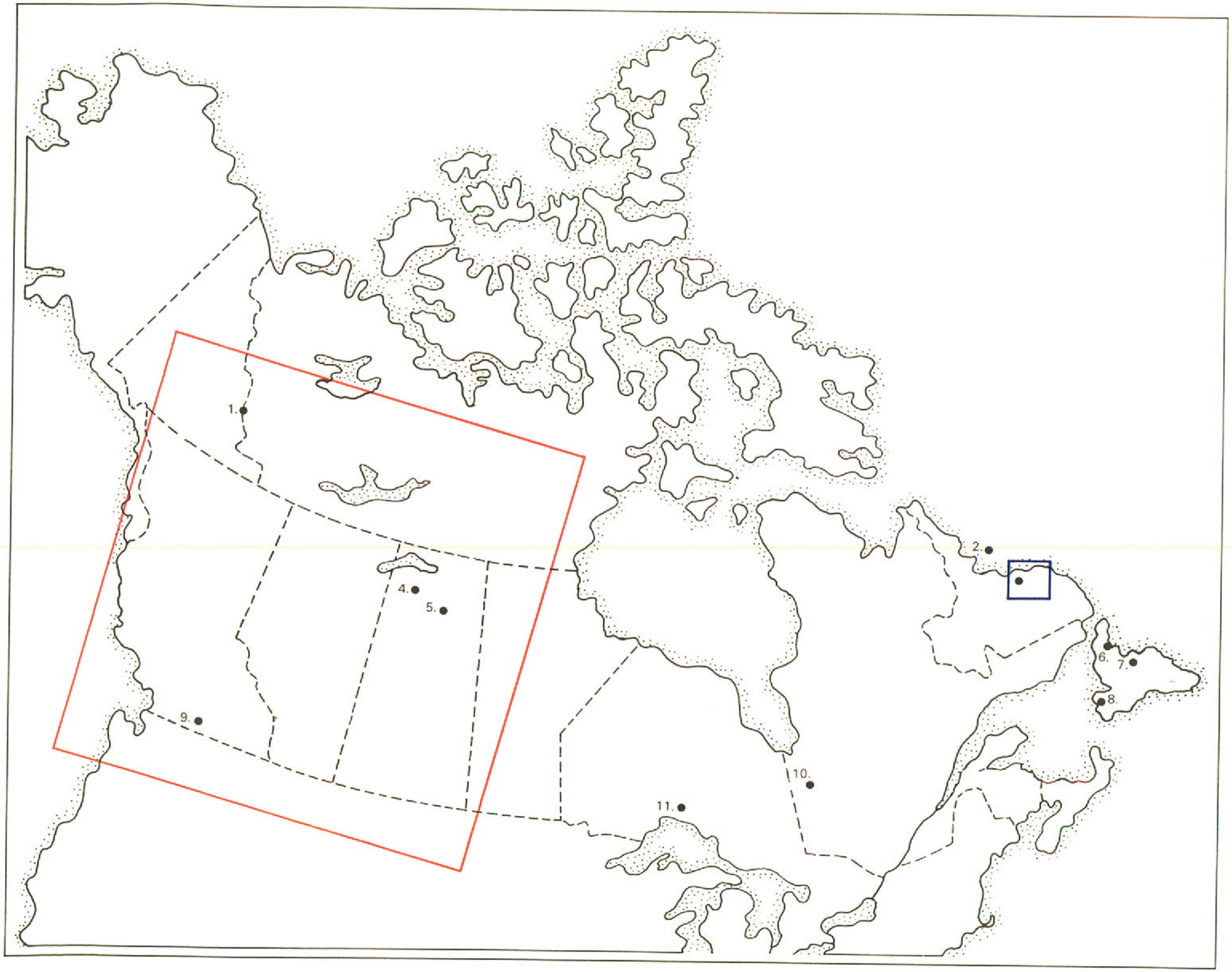
(iv) *Residency requirements for board of directors*: Under Alberta law, at least half of the board of directors must generally be "resident Albertans". In addition, at least half of the members present at every meeting of the board of directors must be "resident Albertans". There are no comparable requirements under Newfoundland law.

(v) *Removal of directors*: Brinco's Articles of Association provide that a director may be removed by 75% of the votes cast at a shareholders' meeting. Under Conuco's Articles of Association a director may be removed by the same percentage of votes.

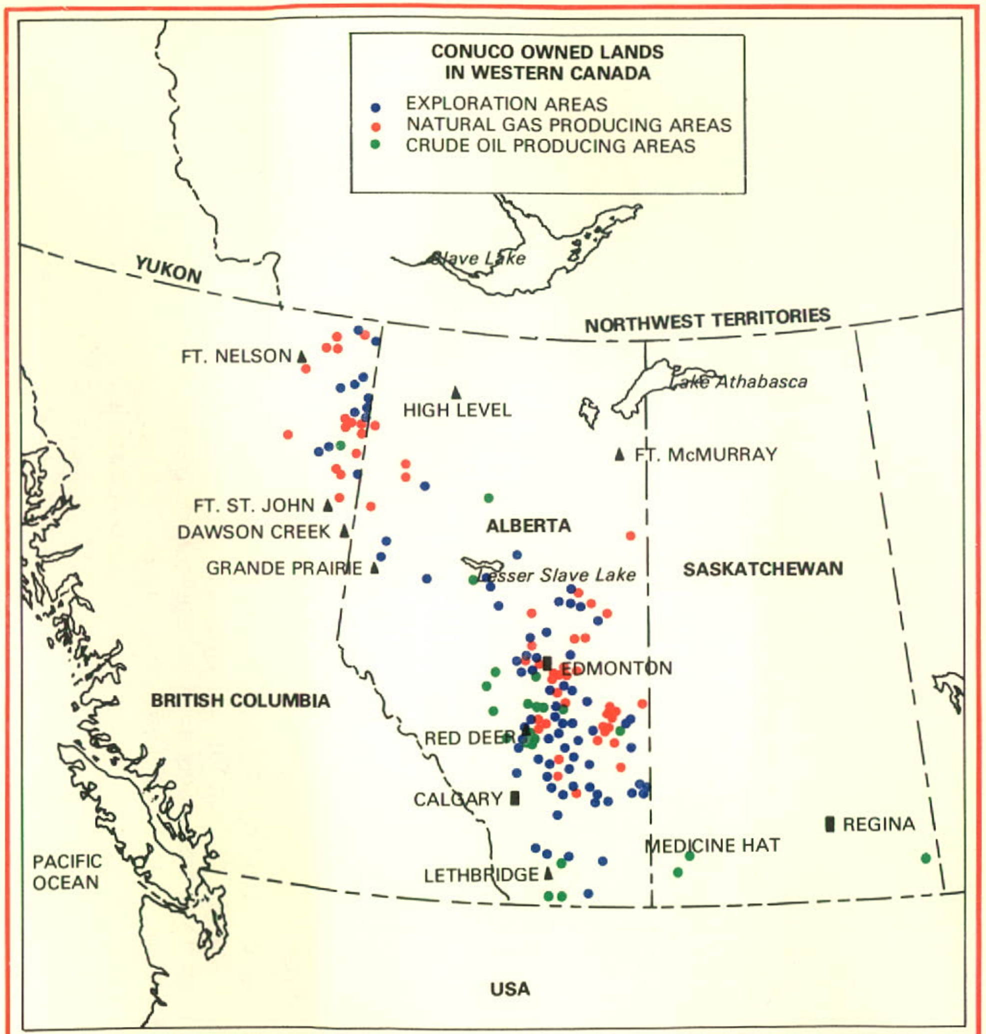
(vi) *Removal of auditor*: Under Alberta law the removal of the auditor during his term of office requires a 75% shareholders' vote, whereas under Newfoundland law the auditor may be removed by a simple majority vote.

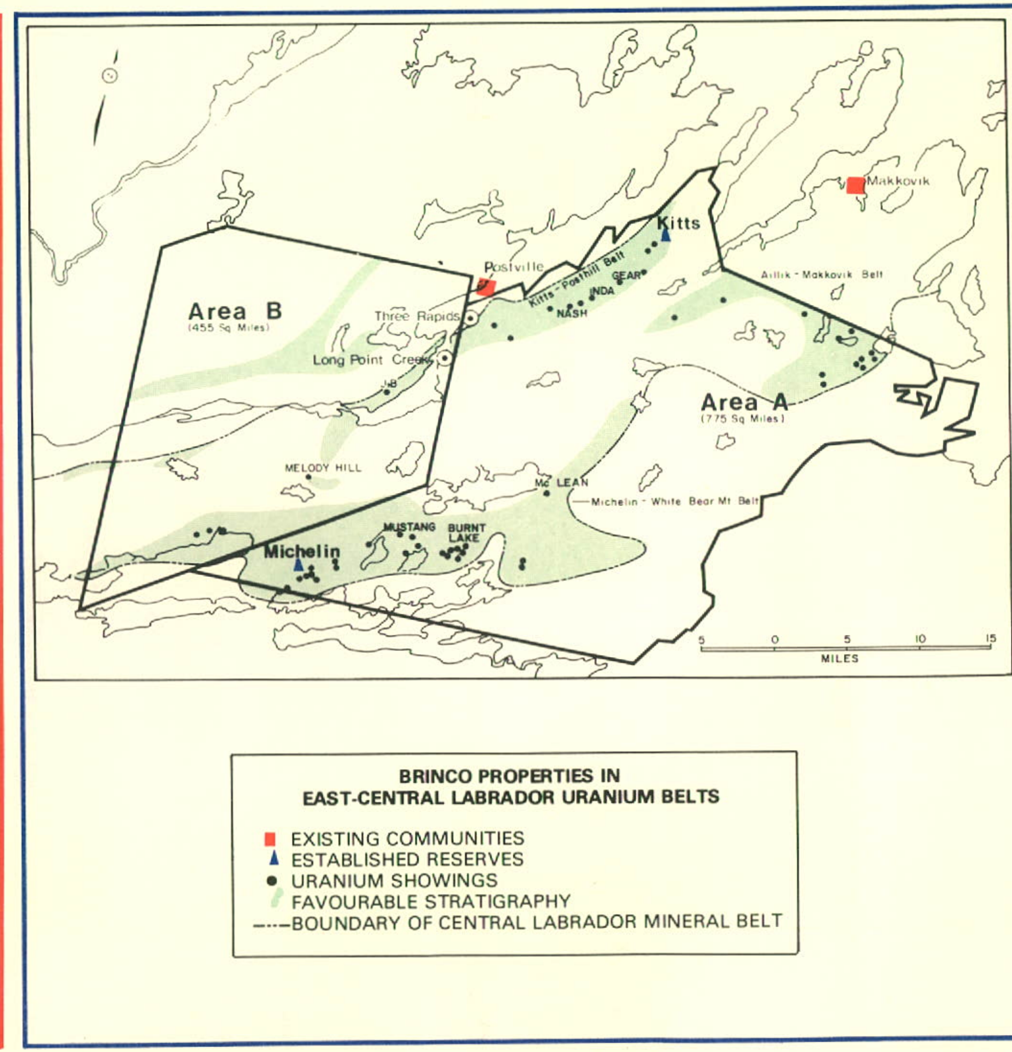
(vii) *Appointment of inspector*: Under Alberta law the Supreme Court of Alberta may appoint an inspector to investigate the affairs of a corporation upon application by the holders of at least 10% of the outstanding shares, whereas under Newfoundland law an application to the Supreme Court of Newfoundland by holders of not less than 20% of the shares is required for the appointment of an inspector.

LOCATION OF THE PRINCIPAL HOLDINGS IN CANADA OF THE MERGED COMPANY



Location	Type of Mineralization or Exploration Project
1. EASTERN YUKON	LEAD/ZINC
2. HOPEDALE	GAS
3. SEAL/MORAN LAKES	URANIUM
4. WILLIAM RIVER	URANIUM
5. RUSSELL & CREE LAKES	URANIUM
6. HALLS BAY N.	LEAD/ZINC SULPHIDES
7. DAWES POND	SULPHIDES
8. WEST NEWFOUNDLAND	LEAD/ZINC CEMENT
9. B.C. URANIUM	URANIUM
10. ABITIBI	ASBESTOS
11. MANITOUWADGE	SULPHIDES
	OIL AND GAS
	URANIUM


CONUCO OWNED LANDS IN WESTERN CANADA
EXPLORATION AREAS
NATURAL GAS PRODUCING AREAS
CRUDE OIL PRODUCING AREAS
YUKON
NORTHWEST TERRITORIES
Slave Lake
Lake Athabasca
FT. NELSON
HIGH LEVEL
FT. McMURRAY
FT. ST. JOHN
DAWSON CREEK
GRANDE PRAIRIE
ALBERTA
Lesser Slave Lake
SASKATCHEWAN
EDMONTON
BRITISH COLUMBIA
RED DEER
CALGARY
REGINA
MEDICINE HAT
LETHBRIDGE
PACIFIC OCEAN
USA


Makkovik
Kitts
Postville
Kitts - Posthill Belt
GEAR
INDA
NASH
Aillik - Makkovik Belt
Area B
(455 Sq Miles)
Three Rapids
Long Point Creek
Area A
(775 Sq Miles)
MELODY HILL
Mc LEAN
Michelin - White Bear Mt Belt
MUSTANG
BURNT LAKE
Michelin
5
0
5
10
15
MILES
BRINCO PROPERTIES IN EAST-CENTRAL LABRADOR URANIUM BELTS
EXISTING COMMUNITIES
ESTABLISHED RESERVES
URANIUM SHOWINGS
FAVOURABLE STRATIGRAPHY
BOUNDARY OF CENTRAL LABRADOR MINERAL BELT

III. CONUCO AND AFFILIATED COMPANIES

General

Conuco was incorporated under the laws of the Province of Ontario by letters patent dated April 20, 1943 under the name Pacific Oil & Refinery Limited. On November 17, 1969 its name became Conuco Limited and effective April 8, 1978 it was continued under the laws of the Province of Alberta. Until 1977, Conuco's business consisted principally of industrial activities with only a limited participation in natural resources. In that year, however, the management structure was reorganized and the focus of Conuco's business changed to oil and gas exploration and development. The Conuco Common Shares are listed on the Toronto, Montreal and Alberta stock exchanges. Conuco's head office and principal place of business is located at 400, 706-7th Ave. S.W., Calgary, Alberta.

Conuco has two subsidiary companies engaged in the oil and gas industry in Canada, namely Exalta Petroleums Ltd. ("Exalta") and Jasper Oils Ltd. A third Canadian subsidiary, Republic Resources Limited ("Republic"), is in the course of winding-up and all of its properties have been transferred to Conuco. In addition, Conuco has two subsidiaries engaged in the oil and gas industry in the United States, namely Conuco Oils of Texas Inc. and Dialta International Oil Inc. Each of these subsidiaries, other than Exalta, is wholly-owned by Conuco. Conuco owns all of the outstanding Exalta Common Shares. The only other class of Exalta shares outstanding, the Exalta Preferred Shares, are to be redeemed prior to the Amalgamation.

Unless the context otherwise indicates, reference to Conuco in this Part III includes Conuco and each of its subsidiaries.

Holders of Securities

Principal Holders

The authorized capital of Conuco consists of 7,000,000 Conuco Common Shares and 1,000,000 Conuco Convertible Preferred Shares of which 5,611,027 Conuco Common Shares and 876,357 Conuco Convertible Preferred Shares were issued and outstanding as fully paid on August 22, 1979 and 148,000 Conuco Common Shares were reserved for issue pursuant to outstanding option agreements.

To the knowledge of the directors and senior officers of Conuco, the only person or company who owns of record, or is known by Conuco to own beneficially, directly or indirectly, more than 10% of any class of voting shares of Conuco is 91639 which beneficially owns directly 3,216,307 Conuco Common Shares representing approximately 57.3% of the outstanding Conuco Common Shares as of August 22, 1979.

One of the four outstanding 91639 Common Shares is beneficially owned indirectly, through Riback Investments, by Mr. M. Ted Riback, who is a director of Conuco. The remaining three 91639 Common Shares are owned by Caballero which in turn is owned indirectly in equal proportions by Messrs. C. Alan Smith, Thomas N. Dirks and James R. Kassube, all of whom are directors and officers of Conuco. The only outstanding 91639 Preferred Share is beneficially owned by Brinco.

Directors, Officers and Others

Except as set out below, none of the directors or senior officers of Conuco and none of their associates beneficially own, directly or indirectly, any Conuco Shares:

Name of Director or Officer	Position with Conuco	Conuco Shares Beneficially Owned, Directly or Indirectly
David J. Freeze	Director	50,100 Common Shares 223,640 Convertible Preferred Shares
James R. Kassube	Vice-President, Exploration and Director	2,400 Common Shares
George H. Plewes	Director	100,000 Common Shares
M. Ted Riback	Director	20,000 Common Shares
C. Alan Smith	President and Director	2,400 Common Shares

Emily R. Smith, the wife of C. Alan Smith, the President of Conuco, beneficially owns directly 975 Conuco Common Shares. Betty Riback, the wife of M. Ted Riback, a director of Conuco, beneficially owns directly 5,300 Conuco Common Shares.

For details of the interests of certain of the directors and officers in 91639, the principal shareholder of Conuco, reference is made to the immediately preceding heading "Principal Holders".

Partners and associates of Davies, Ward & Beck, special counsel to Conuco, beneficially own, directly or indirectly, an aggregate of 5,000 Conuco Common Shares.

Business and Properties of Conuco

Conuco is engaged in the exploration for and development of reserves of crude oil, natural gas and related hydrocarbons in Canada and in the United States. Its operations in Canada are concentrated primarily in the Provinces of Alberta and British Columbia and its operations in the United States are located primarily in the State of Texas.

Through its technical staff located at its head office in Calgary, Conuco delineates geologically attractive oil and gas prospects. Exploratory geophysical operations and/or exploratory drilling operations are then conducted on the prospects by independent contractors under the direction of Conuco personnel utilizing financial resources of Conuco and of other companies who own joint venture participations in the prospects. Crude oil produced is sold at the wellhead to other companies or government agencies and Conuco does not engage in crude oil refining or processing beyond operations conducted at the wellhead. Natural gas produced is sold to other companies or government agencies under standard contractual conditions at the outlet valve of the production facilities.

Drilling Activities

Conuco did not commence actively drilling or participating in the drilling of any wells until its fiscal year ended March 31, 1977. To June 30, 1979 Conuco drilled or participated in drilling 194 wells as follows:

Year ended March 31	Oil Wells	Gas Wells	Dry Holes	Total
1977	—	28	27	55
1978	1	37	20	58
1979	15	28	28	71
Three months ended June 30, 1979	5	4	1	10
Total	21	97	76	194

Conuco's share of costs of land acquisition, exploration activities and development drilling, and equipment and production facilities, for the five years ended March 31, 1979 and the three months ended June 30, 1979 are as follows:

Year Ended March 31	Land Acquisition	Exploration Activities & Development Drilling	Equipment & Production Facilities	Total
1975	$ —	$ 42,673	$ 62,774	$ 105,447
1976	77,806	325,095	45,303	448,204
1977	332,306	461,700	128,985	922,991
1978	138,454	1,292,300	322,921	1,753,675
1979	852,698	1,861,460	691,858	3,406,016
Three months ended June 30, 1979	44,116	363,058	13,050	420,224
Total	$1,445,380	$4,346,286	$1,264,891	$7,056,557

Undeveloped Acreage

The following tables indicate Conuco's gross and net leasable acreage holdings by area as of June 30, 1979. The acreage set forth in the tables is undeveloped and includes all acreage held by Conuco as at such date which did not have a producing well or a well capable of production located on it.

Alberta

Area	Gross Acreage (1)	Net Leasable Acreage (1) (2)	Expiry Date (3)
Aerial	160	160	1985
Ardley	1,620	1,237	1982-85
Bashaw	800	800	1984
Battle	2,400	680	1980
Bellshill Lake	34,500	10,430	1980-82
Big Lake	480	480	1981
Bittern Lake	160	24	1981-85
Bruce	48,660	2,175	1980-88
Bellis (Ukalta)	480	53	1981
Bellshill Lake West	640	320	1981
Buffalo Lake East	13,280	4,213	1983
Camrose	320	320	1982
Cappon	18,080	—*	1983-86
Caroline	320	320	1980-85
Carson Creek	320	320	1984
Castor	640	—*	1981
Cessford	640	640	1982-84
Chain Lakes	9,600	1,600	1982
Charron	6,400	484	1980-86
Chauvin	640	416	1983
Chigwell-Tees	12,800	4,066	1980-86
Connorsville	2,080	—*	1984
Coutts	160	80	1981
Cowpar	2,560	1,280	1979
Craigend	300	60	1982-87
Craigmyle	960	—*	1982
Crossfield	320	320	1983
Dapp	6,240	2,475	1984-85
Donalda	640	80	1979-82
Drumheller	160	56	1981-83
Elnora	800	400	1980-81
Entrance	920	—*	1979
Fairydell	1,920	440	1982
Farrell Lake	640	—*	1983
Ferrier	480	—*	1980
Foremost	6,400	720	1983
Forestburg	4,160	4,160	1979-86
Fort Saskatchewan	960	—*	1982-83
Goose River	640	317	1982
Hamilton Lake	20,480	6,273	1985
Hughenden	640	384	1979-83
Hutton	3,360	366	1983-84
Hotchkiss West	16,320	1,440	1981-87
Iron Springs	3,200	—*	1981
Joffre	4,640	3,420	1981-84
Judy Creek	1,120	196	1980-86
Lacombe	4,720	—*	1981

* Gross Acreage in which Conuco has an overriding royalty interest only.

Alberta (continued)

Area	Gross Acreage (1)	Net Leasable Acreage (1) (2)	Expiry Date (3)
LaGlace	11,840	4,053	1981
Leahurst	640	320	1981
Leduc	160	80	1984
Little Bow	320	320	1982
Manning	1,920	1,920	1981-82
Manning-Buchanan Creek	8,640	535	1989
Meekwap	6,880	2,045	1980-83
Mintlaw	1,440	1,040	1981
Mistahae	17,920	448	1984
Morinville	160	24	1985
Nevis	960	—*	1984
North Atlee	7,680	—*	1985
North Star	3,840	265	1986
Notikewan	5,760	720	1981
Peavy	480	160	1979
Peers	1,280	—*	1979
Pembina (Lobstick)	1,440	960	1984
Penhold	7,120	1,616	1982-87
Provost	42,320	2,328	1980-84
Ranfurly (Plain)	4,000	1,000	1984
Rattlesnake	2,560	448	1981
Red Earth	1,280	320	1982-84
Retlaw	1,600	—*	1983
Richdale	640	640	1983
Rowley	1,280	480	1981-84
Sedalia	640	499	1983
Sibbald	1,120	—*	1980
Spirit Ridge	8,640	2,232	1984
Spotted Lake	640	—*	1982-84
Spruce Grove	35,720	5,318	1979-84
Stettler	160	160	1982-85
Stettler East	320	320	1982
Sullivan Lake	800	160	1981-86
Sunnynook	640	640	1982
Superba	1,920	1,920	1982
Swan Hills	12,800	562	1981
Taber	1,200	278	1984-86
Thorhild	480	72	1985
Travers	2,400	600	1982
Trochu	320	160	1981
Valleyview	640	—*	1983
Viking	9,280	2,320	1982
Warwick	3,040	1,825	1982-83
Wintering Hills	160	54	1983
Wood River	320	3	1981
Worsley	3,520	176	1985-86
Total	454,680	88,226	

* Gross Acreage in which Conuco has an overriding royalty interest only.

British Columbia

Area	Gross Acreage (1)	Net Leasable Acreage (1) (2)	Expiry Date (3)
Beatton River	14,581	1,040	1986
Cabin	654	159	1981
Clark-Kakisa	26,636	6,319	1984
Courvoisier	19,749	1,646	1985
Dahl	16,318	1,282	1987, 1988
Ekwan	10,975	859	1988
Grassy-Sikanni	15,996	4,170	1984
Hostli	9,744	1,270	1983
Helmet	1,294	162	1987
Jean Marie	16,750	4,187	1984
Ladyfern	5,250	1,301	1980
Ladyfern West	20,820	5,205	1984
North Pine	1,280	80	1986
Peejay	175	175	1980
Rigel (Buick)	700	131	1984
Ring North	19,243	1,805	1985
Ring South	24,408	3,840	1984
Slave	42,334	7,055	1985, 1987
Total	246,907	40,686	

Saskatchewan

Butte	320	—*	1980
Dollard	80	80	1983
Total	400	80	

Arctic Islands

Axel Heiberg	43,482	858	1980
Banks Island	141,490	2,830	1980
Eglinton Island	32,047	640	1980
Melville Island	212,122	2,430	1980
Melville Island West	122,652	2,472	1980
Prince Patrick Island	156,293	1,562	1980
Total	708,086	10,792	

East Coast Offshore

Labrador	753,404	5,463	1982

United States

Montana

Coffee	960	3	1981

Texas

McAden Grayson County	259	19	1980
Red Oak Leon County	8,042	326	1983
Total	8,301	345	

* Gross Acreage in which Conuco has an overriding royalty interest only.

NOTES:

(1) Gross acreage represents the acreage in which Conuco has varying interests. Net leasable acreage represents the aggregate of the interests of Conuco (other than a royalty interest) in the gross acreage. In the case of reservations, permits and licences these figures are after giving effect to future reversions to the government involved.

(2) No figures for net leasable acreage have been provided where the only interest in the acreage owned by Conuco is a royalty interest. Generally royalty interests are payable on the gross production from a property prior to application of any production expenses.

(3) The expiry date is the year in which, unless producible oil or gas is located, Conuco's title will expire. In the meantime Conuco's rental obligations are $1 per net acre in Alberta, and $2 per net acre in British Columbia. In addition, although it has no drilling or work commitments on this acreage, various drilling or other work must be undertaken (or a penalty paid instead) if Conuco wishes to maintain title until the expiry year. Rentals in the United States vary from $1 to $25 per net acre.

Summary of Undeveloped Acreage

	Gross Acreage	Net Leasable Acreage
Alberta	454,680	88,226
British Columbia	246,907	40,686
Saskatchewan	400	80
Arctic Islands	708,086	10,792
Eastcoast Offshore	753,404	5,463
United States	9,261	348
Total	2,172,738	145,595

Productive Properties

Conuco's oil and gas wells at June 30, 1979 are listed in the following tables. Wells listed as "capped" are wells which Conuco considers capable of production. In the tables, the term "gross wells" means the total number of wells in which Conuco has an interest. The term "net wells" means the sum of Conuco's working interests and royalty interests in the wells.

Area	Gross Wells	Net Wells	Status		Proximity (km) of Capped Gas Wells to Transmission Facilities
			Producing	Capped	
Alberta — Gas Wells					
Amisk	5	1.000	2	3	4
Beaverhill Lake	2	.103		2	5
Bellis	3	1.089	2	1	4
Bellshill Lake	1	.250		1	4
Border	1	.266		1	32
Bow Island	1	.025		1	15
Bruce	51	2.935	31	20	3
Buffalo Lake	1	.050		1	14
Chain	1	.091		1	9
Charron	5	.230	4	1	1
Chigwell	11	1.313		11	9
Craigend	2	.351	1	1	8
Drumheller	1	1.000	1		
Ferrier	1	.030	1		
Graham	1	.500	1		
Holburn	3	.455		3	5
Hotchkiss	4	.374		4	8

Area	Gross Wells	Net Wells	Status: Producing	Status: Capped	Proximity (km) of Capped Gas Wells to Transmission Facilities
Joffre	2	.316		2	3
Judy Creek	1	.173	1		
Killam	4	.500		4	10
Lacombe	1	.030	1		
Leduc-Woodbend	1	.500	1		
Meadow	3	1.459	1	2	5
Morinville	1	.233		1	2
Nevis	1	.030		1	2
Notikewin	1	.182		1	13
Pembina	2	.875	1	1	1
Provost	27	2.277		27	15
Ranfurly	1	.250		1	3
Red Willow	1	.015		1	8
Royal (Warwick)	1	.852		1	8
Superba	1	.300		1	4
Sylvan Lake	1	.107		1	7
Taber	1	.169		1	4
Tees	3	.492	2	1	3
Tofield	2	.103		2	8
Ukalta	1	.110		1	4
Viking Kinsella	5	1.357	2	3	3
Wintering Hills	1	.205		1	11
Wood River	3	.090	3		
Worsley	1	.050	1		
Total	160	20.737	56	104	

Alberta — Oil Wells

Bashaw	1	.125	1	
Chauvin	2	1.150	1	1
Chigwell	15	1.900	13	2
Coutts	1	.500	1	
Ferrier	1	.030	1	
Holburn	1	.038	1	
Joffre	20	4.885	20	
Lacombe	1	.030		1
Leahurst	1	.333		1
Nevis	1	.030	1	
Provost	3	.174	1	2
Red Earth	1	.250	1	
Retlaw	1	.250	1	
Swan Hills	1	.350	1	
Sylvan Lake	1	.107	1	
Taber	3	.994	2	1
Tees	1	.494		1
Willesden Green	1	.500	1	
Wintering Hills	2	.320	1	1
Wood River	3	.090	3	
Total	61	12.550	51	10

Area	Gross Wells	Net Wells	Status: Producing	Status: Capped	Proximity (km) of Capped Gas Wells to Transmission Facilities
British Columbia — Gas Wells					
Buick Creek	2	.281	2		
Clark Lake	1	.050		1	3
Currant	1	.100		1	16
Dahl North	12	.772	12		
Kotcho Lake	1	.109	1		
Ladyfern	2	.257		2	30
North Pine	1	.031	1		
Rigel	3	.280	2	1	3
Ring	3	.534		3	30
Velma	1	.004		1	8
Total	27	2.418	18	9	
British Columbia — Oil Wells					
Beatton River West	1	.250	1		
Ladyfern	1	.250		1	
Velma	1	.003	1		
Total	3	.503	2	1	
Saskatchewan — Oil Wells					
Bench	1	.020	1		
Buffalo Head	1	1.000	1		
East Dollar	1	1.000	1		
Total	3	2.020	3		
East Texas — Oil Wells					
Philpick Texas	7	.675	7		
Total of All Areas:					
Oil:	74	15.748	63	11	
Gas:	187	23.155	74	113	
Total	261	38.903	137	124	

Production History

During the five fiscal years ended March 31, 1979 and the three months ended June 30, 1979, Conuco's production of crude oil, natural gas liquids and natural gas including Conuco's interest in the crude oil, natural gas liquids and natural gas of any other person or company was as follows:

	Aggregate of Working Interests and Royalty Interests		
Year Ended March 31	Crude Oil & Natural Gas Liquids (bbl)	Natural Gas (mcf)	Revenue ($)
1975	—	70,336	29,485
1976	—	72,996	40,547
1977	—	258,000	255,942
1978	7,320	378,020	478,877
1979	62,424	1,061,380	1,364,227
Three months ended June 30, 1979	29,505	274,913	683,008
Total	99,249	2,115,645	$2,852,086

Significant Producing Properties

Approximately 50% of Conuco's revenues during the fiscal year ended March 31, 1979 was derived from natural gas production. Approximately 25% of its revenues during such period was derived from crude oil production while the remaining 25% was derived from fees for operating oil and natural gas properties and from other sources. The production revenues are derived from 37 properties located in British Columbia, Alberta, Saskatchewan and Texas. Based on results compiled from production statistics for the first six months of 1979, Conuco estimates that the following properties will account for the following specified percentages of its total crude oil production during the fiscal year ending March 31, 1980: Joffre, Alta. — 48%; Buffalo Head, Sask. — 11%; Beatton River West, B.C. — 10%; Chigwell, Alta. — 9% and Philpick, Texas — 7%. Additionally, based on similarly compiled natural gas production statistics, Conuco estimates that natural gas production from the Kotcho Lake, Dahl North and Buick Creek properties in British Columbia will account for 27%, 12% and 10%, respectively, and from the Leduc-Woodbend and Pembina properties in Alberta will account for 16% and 11%, respectively, of Conuco's total natural gas production during the fiscal year ending March 31, 1980.

Reserves

During 1978 D&S Petroleum Consultants (1974) Ltd. ("D&S") prepared, at the request of management of Conuco and Exalta, separate valuations of the oil and gas properties of each of Conuco, Exalta and Republic, in each case as at August 1, 1978. These valuations, as they related to Exalta and Republic, were requested in connection with the proposed acquisition by Conuco and Exalta of all the outstanding common shares of Republic and the proposed acquisition by Conuco of all the outstanding common shares of Exalta. Those transactions were completed effective October 31, 1978 and December 31, 1978, respectively. As is indicated above, the properties formerly held by Republic have now been transferred to Conuco.

In order to provide shareholders with information as to its reserves and those of its subsidiaries as at a more recent date, Conuco requested D&S to evaluate as at May 31, 1979 the oil and gas properties of Conuco and its subsidiaries, including those previously owned by Republic. The following table summarizes the net reserves and estimated future net revenues of Conuco and its subsidiaries from such properties by way of their working interests and royalty interests, and is derived from a report by D&S dated August 16, 1979, but effective May 31, 1979:

	Net Reserves		Estimated Future Net Revenues			
	Crude Oil	Natural Gas	Undiscounted	Discounted at		
	mbbl	mmcf	000's	12% 000's	15% 000's	20% 000's
Proved Developed	1,452	9,794	$ 47,580	$18,561	$16,106	$13,240
Proved Undeveloped....	695	14,661	45,547	15,848	13,030	9,867
Probable Additional.....	1,181	11,706	47,541	13,170	10,836	8,229
Total	3,328	36,161	$140,668	$47,579	$39,972	$31,336

Notes:

1. The future net revenues are after deduction for operating costs, royalties and future development costs. Indirect costs, such as administrative overhead, management fees, other miscellaneous expenses and income taxes have not been considered. The discounted future net revenues, shown at rates of 12%, 15% and 20% per annum compounded annually to mid-year are not to be construed as fair market values.

2. The following reserve classifications have been used in these evaluations:

   "Proved reserves" are defined to be those quantities of crude oil, natural gas, and natural gas liquids which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. Proved reserves have been limited to those quantities of oil and gas which can be expected with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods.

   "Proved developed reserves" are proved reserves which are expected to be recovered from existing wells, through existing completion intervals, with existing equipment and operating methods; and, those proved reserves behind the casing of existing wells, which are expected to be produced through these wells in the predictable future.

   "Proved undeveloped reserves" are defined as proved reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required to place the production on-stream.

   "Probable additional reserves" are defined as those situated in the vicinity of proved properties, but where the geologic and engineering control indicate some degree of risk or where modifications to the depletion method should result in increased recoverable reserves.

3. The table summarizes the results of individual cash flow forecasts prepared for each property. The forecasts were taken from reports prepared by D&S for Conuco, Republic and Exalta dated October 5, 1978 and January 31, 1979. The effective date of these reports was August 1, 1978. The forecasts were re-evaluated by D&S to reflect current well productivities and oil and gas prices. The operating costs used in the earlier reports were escalated 10% for the report as at May 31, 1979. In addition, non-producing, uncontracted gas properties were not assumed to come on production prior to November 1, 1982, reflecting the current gas surplus in Western Canada.

   Additional properties were added to those covered by the earlier reports due to the subsequent drilling of new wells. These properties were evaluated individually by D&S and have been included in its report as at May 31, 1979.

   Several new wells have been drilled in some of the previously evaluated properties. These new wells have been evaluated by D&S and the previous evaluations have been modified to reflect the new wells.

Conuco did not request D&S to estimate the fair market value of its current holdings of unproven acreage and accordingly no such estimate was included in its report.

The reserves and estimated future net revenues as determined by D&S differ significantly from those derived from a report on substantially the same properties, as at March 31, 1979, prepared by McDaniel Consultants (1965) Ltd. ("McDaniel"). This latter report was commissioned by Brinco during the course of negotiation of the proposed Merger terms and was issued on July 30, 1979. The following table summarizes the net reserves and estimated future net revenues to Conuco and its subsidiaries from such properties as derived from such report:

	Net Reserves		Estimated Future Net Revenues			
	Crude Oil	Natural Gas	Undiscounted	Discounted at		
	mstb	mmcf	000's	12% 000's	15% 000's	20% 000's
Proven Remaining	828	22,664	not reported	$22,191	$18,545	$14,348
Probable Additional	769	5,596	not reported	2,143	1,796	1,391
Total	1,597	28,260	$63,286	$24,334	$20,341	$15,739

Notes:

1. The future net revenues are after deduction for operating costs, royalties and future development costs. Indirect costs, such as administrative overhead, management fees, other miscellaneous expenses and income taxes have not been considered. The discounted future net revenues, shown at rates of 12%, 15% and 20% per annum compounded annually to mid-year are not to be construed as fair market values.
2. The following reserve classifications have been used in these evaluations:

   "Proven reserves" were considered to be those reserves which to a high degree of certainty are recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs.

   "Probable additional reserves" were considered to be those reserves commercially recoverable as a result of the more favourable performance of the existing recovery mechanism than that which could be deemed to be proven at this time. Probable additional natural gas reserves were also assigned to those areas which are believed to be potentially productive but which could not be realistically considered proven at the present time.
3. The table summarizes the results of individual cash flow forecasts prepared for each property. The complete report presents these cash flow forecasts.

Brinco also requested McDaniel to evaluate the unproven acreage of Conuco and its subsidiaries as at March 31, 1979. In its report McDaniel estimated the fair market value of such acreage as at that date to be approximately $5,400,000.

Industry Conditions

Pricing

Conuco's Canadian oil production is located in British Columbia, Alberta and Saskatchewan. In the Provinces of British Columbia and Alberta, a variable royalty on oil production is reserved to the Crown. Income from oil produced from wells situate in Saskatchewan is subject to tax under The Oil Income Tax Act (Saskatchewan). The current Edmonton terminal crude oil price is $13.25 per barrel. A price increase of $1 per barrel is scheduled for January 1, 1980.

Conuco's natural gas production is located entirely in British Columbia and Alberta. Natural gas produced in British Columbia is purchased by British Columbia Petroleum Corporation at a price net of provincial taxes and royalties. Conuco's gas production in that Province consists entirely of "new" gas for which it receives $1.03 per Mcf. In Alberta a variable royalty on gas production is reserved to the Crown. The average regulated field price for natural gas in Alberta is currently $1.64 per million BTU.

Oil and gas production in the United States is subject to variable royalties. Gas production in the United States is sold either through the interstate system, at a price regulated by the Federal Energy Regulatory Commission, or to the various intrastate systems, at negotiated prices. Conuco's share of natural gas is currently sold into the interstate market at a price of $1.89 (U.S.) per Mcf. The average price for "new" oil in the United States is $28.50 (U.S.) per barrel.

Production and Export

Production and marketing of crude oil and natural gas in Canada are subject to regulation by both provincial and federal authorities. In Alberta, production of conventional crude oil is subject to prorationing among producing fields to meet projected levels of market demand. However, as a result of current high demand levels, all fields are presently entitled to produce at rates consistent with good engineering practice.

Crude oil, certain petroleum products and natural gas generally may not be exported from Canada except under the authority of a licence issued by the National Energy Board ("NEB"). Prior to issuing an export licence, the NEB must be satified that the quantity of product to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to trends in discovery. Generally speaking, the term of an export licence may not exceed 25 years. Exports of limited quantities of natural gas may also be authorized by order of the NEB.

In 1974, the NEB projected that a deficiency in the supply of Canadian crude oil to meet the Canadian demand for feedstocks was possible in the early 1980's and concluded that action was necessary to reduce crude oil exports. Accordingly, effective January 1, 1975, the NEB adopted a procedure of determining the level of oil exports on the basis of forecasts of surplus producibility and a formula designed to phase out exports gradually as surpluses disappeared. In its September 1978 report, Canadian Oil Supply and Requirements, the NEB stated that licensing of exports of light crude oil could be maintained at the 1978 level of 55,000 barrels per day for three years until the end of 1981, after which they would cease, and that licensed exports of heavy crude oil should continue to be restricted to those quantities remaining after meeting the feedstock requirements of Canadian refiners. The federal Government imposes an export charge on crude oil and certain oil products exported from Canada in an amount generally equal to the difference between the Canadian price and the average import price to the United States of oil imported from countries other than Canada.

In 1971, the NEB decided that Canada did not have a surplus of natural gas reserves after considering Canadian requirements and amounts already committed for export to the United States. Subsequently, because of changing circumstances in the natural gas industry, the NEB conducted an inquiry to determine whether Canada now has a surplus available for further exports and, in its February 1979 report, Canadian Natural Gas Supply and Requirements, the NEB indicated that about two trillion cubic feet of natural gas may now be available for new exports. Hearings on specific export applications began in July 1979 and applications have been made to the NEB for the export of over nine trillion cubic feet of natural gas over periods ranging up to 12 years. The hearings were concluded during the week of August 10, 1979, but no decisions have yet been announced by the NEB with respect to any of such applications.

A permit is also required from the Alberta Energy Resources Conservation Board with the approval of the Alberta Government for the removal from Alberta of natural gas produced in Alberta.

Land Tenure

Recent amendments to The Mines and Minerals Act (Alberta), which governs the basis of tenure of Alberta Crown petroleum and natural gas leases, have been designed to provide an incentive to maintain a high level of exploration activity within Alberta. First, leases of petroleum or natural gas properties issued after July 1, 1976 have been and will be for primary terms of five years rather than the customary 10 or 21 year terms granted prior to such date. Secondly, in respect of most Alberta Crown petroleum and natural gas leases, all zones below the deepest zone capable of production in paying quantities, revert to the Crown upon the expiration of the primary term of the lease or January 1, 1983, whichever date is later. Finally, the regulations to the Act require lessees under Alberta Crown petroleum and natural gas leases to commence drilling operations prior to the expiration of the primary term of the leases. Failure to comply with these drilling requirements may result in the cancellation of the leases.

Land tenure regulations in British Columbia and Saskatchewan generally correspond with those currently in effect in Alberta. Conuco's lands located in the United States are held through freehold petroleum and natural gas leases with terms varying from one to five years.

Interests of Management and Others in Material Contracts of Brinco and Conuco

Except for their interests in the Merger and Amalgamation Agreement, neither Caballero nor 91639 and none of the directors and senior officers of Conuco and their other affiliates, has any interest in any material contract to which Brinco is a party. Caballero and 91639 are interested in the Merger and Amalgamation Agreement as parties to such agreement. The directors and senior officers of Conuco are interested in the Merger and Amalgamation by reason of their respective shareholdings in Conuco, Caballero, 91639 and Exalta, details of which are set forth under the headings "Merging Companies" on page 3 and "Conuco — Holders of Securities" on page 25. Certain of the directors and officers are also interested in the Merger and Amalgamation Agreement by reason of the arrangements referred to under "The Merged Company — Arrangements with Conuco Management" on page 64.

Effective October 31, 1978, Conuco acquired 50% of the outstanding shares of Republic for a cash consideration of $2,572,910, and Exalta acquired the balance of the outstanding shares of Republic for a cash consideration of $2,431,692 and 50,000 Conuco Common Shares valued at $250,000. At that date, Exalta was the parent company of Conuco.

Effective as at December 31, 1978 Conuco acquired for a nominal consideration all of the issued and outstanding common shares of Exalta previously held indirectly by Messrs. C. A. Smith, T. N. Dirks, J. R. Kassube and M. T. Riback, all of whom are directors and senior officers of Conuco. In connection with the acquisition Conuco guaranteed the repayment of certain indebtedness of Exalta to Riback Investments in the amount of $3,840,918 and to Mr. Riback personally in the amount of $378,648. The value of the common shares of Exalta was determined by the directors of Conuco to be $652,560 and accordingly, $652,550 was credited to contributed surplus.

Except for the foregoing transactions and except for the transactions contemplated by the Merger and Amalagamation Agreement, neither Caballero nor 91639, nor any of the directors and senior officers of Conuco and their other associates and affiliates has had, or now has any material interest, direct or indirect, in any transaction since the commencement of Conuco's last completed financial year or in any proposed transaction which, in either case, has materially affected or will materially affect Conuco or any of its affiliates.

IV. BRINCO

The Company

Brinco was incorporated on April 17, 1953 under the laws of the Province of Newfoundland with the name British Newfoundland Corporation Limited. By certificate of change of name dated June 30, 1971, the name of the company was changed to Brinco Limited. Brinco's registered office is located at Suite 1101, Royal Trust Building, Water Street, St. John's, Newfoundland and its executive offices are at 20 King Street West, Toronto, Ontario. Brinco's authorized and issued share capital are described under the heading "Authorized and Issued Capital of Brinco" on page 56.

Business and Properties of Brinco

Background

Brinco is engaged, directly and indirectly, in the exploration for and development of natural resources relating primarily to three areas: namely (i) energy resources, including uranium, natural gas and oil, (ii) industrial minerals, principally asbestos and limestone, and (iii) base metals, principally zinc. These activities are carried out, either directly or through joint ventures, by Brinco, by its wholly-owned subsidiaries, namely British Newfoundland Exploration Limited ("Brinex") and Union Holdings Incorporated ("Union") or by associated companies, namely Abitibi Asbestos Mining Company Limited ("Abitibi") and Coseka Resources Limited ("Coseka") in which Brinco holds 60.1% and 25.3% equity interests, respectively.

Brinco was originally established with the primary objective of exploring, investigating and developing the natural resources of the Province of Newfoundland. In May 1953 the Government of Newfoundland and Brinco entered into an agreement which has been amended from time to time (such agreement, as amended, the "Principal Agreement") whereby Brinco was granted (i) exclusive rights until December 31, 1954 to explore for natural resources in uncommitted areas of the Island of Newfoundland and Labrador, (ii) an option until December 31, 1954 to take a 30 year exploration lease on 50,000 square miles in Labrador and 10,000 square miles in the Island of Newfoundland of the areas subject to the exclusive exploration rights with exclusive rights to prospect and explore such leased areas, (iii) the right during the subsistence of any exploration lease to acquire exclusive mining leases with a term of at least 99 years covering areas of reasonable size for the mining and treatment operations envisaged, and (iv) the right to acquire in fee simple surface lands necessary for surface works and facilities incidental to the development of mineral resources. Pursuant to the Principal Agreement a mineral exploration lease (the "Exploration Lease") covering 50,000 square miles in Labrador and 10,000 square miles in the Island of Newfoundland was issued from the Government of Newfoundland to Brinco in September 1955 and assigned to Brinex in November 1955. The Exploration Lease expires on September 26, 1985. The Principal Agreement requires Brinco to expend certain sums on exploration for natural resources in the areas covered by the Exploration Lease and to surrender every five years a stated number of square miles of such areas as selected by Brinco. Under the terms of the Principal Agreement, Brinco is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of Brinco resulting from the operations on the concessions.

The Principal Agreement included extensive water power rights throughout the Province of Newfoundland. In 1958 the rights, options and assets relating to the water power potential of the upper part of the Churchill River and watershed in Labrador acquired pursuant to the Principal Agreement were transferred by Brinco to its then wholly-owned subsidiary, Churchill Falls (Labrador) Corporation Limited ("CFLCo"). Until 1974, Brinco's principal activity was the construction and initial operation through CFLCo of the Churchill Falls hydro electric power plant and related facilities in partnership with Hydro Quebec and the Government of Newfoundland (to whom Brinco conveyed an aggregate 43% equity interest in CFLCo) — an undertaking involving total capital expenditures of approximately one billion dollars. In June 1974 Brinco sold to the Government of Newfoundland and one of its agencies its remaining 57% equity interest in CFLCo together with all other rights and assets relating to water power in Labrador for $160 million. At the time of such sale, construction of the CFLCo facilities was more than 95% complete and contracted deliveries of power had been made on schedule for over two years. The terms of the sale agreement required Brinco to use the net proceeds of such sale, in part, to pay a special dividend on its common shares and to make an offer to repurchase from its shareholders Brinco Common Shares then outstanding at a purchase price of $7.07 per share. Pursuant to such obligations, Brinco paid a special dividend in 1974 of $1.20 per common share and repurchased during that year 9,973,067 of its outstanding common shares.

In June 1957 the Government of Newfoundland and Brinex entered into an agreement, which has been amended from time to time (such agreement, as amended, the "Statutory Agreement") whereby Brinex was granted (i) exclusive rights until March 14, 1980 to explore for natural resources in certain areas of the Island of Newfoundland and Labrador not covered by the Principal Agreement, (ii) the unlimited right to stake mineral claims in such areas, (iii) the right to obtain five year special development licenses within the areas covered by the Statutory Agreement, (iv) the right to convert any special development license to a mining lease with a term of 50 years, and (v) the right to acquire, in fee simple, surface lands reasonably necessary for purposes incidental to mining and treatment of ores. The rights covered by the Statutory Agreement extend to all minerals other than oil and natural gas. The Statutory Agreement requires Brinex to explore for natural resources in the areas covered by the Statutory Agreement.

As at July 31, 1979 the exclusive rights held by Brinex under the Principal Agreement covered 2,504 square miles in Labrador and 1,505 square miles on the Island of Newfoundland and the exclusive rights held by Brinex under the Statutory Agreement covered 2,375 square miles in Labrador and 744 square miles on the Island of Newfoundland.

The British Newfoundland Exploration Ltd. (Petroleum and Natural Gas) Act, 1963, gave Brinex the right to enter into an agreement with the Province of Newfoundland pursuant to which Brinex would have exclusive rights to explore for petroleum and natural gas in an area of 9,626 square miles along the west coast of Newfoundland. Such an agreement with the Government of Newfoundland was entered into in 1971. In 1964 Brinex and Golden Eagle Oil and Gas Ltd., under a joint venture agreement, commenced exploration of the southwestern part of the Island of Newfoundland, which culminated in the drilling of two test wells at Port-au-Port Bay in 1965. In 1971 part of the joint venture area was explored by Union Oil Company Ltd. under a farm-out agreement, which led to the drilling of a further well in the Anguille Mountains in 1973. Further offshore geophysical surveys were carried out by Mobil Oil Canada Ltd. in 1974-75, and by Brinex in 1976-77. In the absence of encouraging exploration results, the petroleum and natural gas exploration rights under the agreement with the Government of Newfoundland were relinquished in October 1978.

During the period 1973 to 1977 Brinco acquired an aggregate of 2,565,649 common shares of Coseka Resources Limited ("Coseka"), representing 25.3% of its outstanding shares. Brinco has participated actively in the management of Coseka, a public company primarily engaged in the exploration for and development of oil and natural gas.

Brinco is in the process of implementing new corporate strategies involving a more active role in the oil and natural gas industry and the bringing into production of its uranium deposits in Labrador. The locations of Brinco's resource properties are shown on the maps on pages 23 and 24 and its principal current activities are described below.

Uranium

(a) Central Labrador Mineral Belt

Brinex's uranium exploration activities have been concentrated in the Central Labrador Mineral Belt which extends some 200 miles southwest from Makkovik on the Atlantic coast to beyond Seal Lake, encompassing an area of approximately 5,000 square miles. Pursuant to the Principal Agreement and the Statutory Agreement, Brinex holds exclusive prospecting rights over most of this Belt and the area has been the subject of exploration since 1954 when Brinex first discovered uranium mineralization in Labrador.

In 1966 Brinex entered into a joint venture agreement (the "Uranium Joint Venture Agreement") with Metallgesellschaft A.G. of Frankfurt, West Germany ("MG") to explore an area of 779 square miles in the Central Labrador Mineral Belt held by Brinex pursuant to the Exploration Lease. In 1969 an adjoining area of 457 square miles, held by Brinex under the Statutory Agreement, was made subject to the Uranium Joint Venture Agreement. In 1974 MG assigned its interest in the Uranium Joint Venture Agreement to Urangesellschaft Canada Limited ("UG"), an associated company. The aforementioned areas are respectively designated as Area 'A' and Area 'B' and are identified on the map appearing on page 24.

Under the Uranium Joint Venture Agreement, UG and Brinex are each to contribute 50% of exploration expenditures incurred in each yearly exploration programme. The Uranium Joint Venture Agreement provides in effect that, subject to the payment of their respective portions of such exploration expenditures, in the event that any mining leases are obtained for the purpose of developing any uranium ores or by-product minerals, the interests of Brinex and UG in all such mining leases and in any company formed for the purpose of working them would be 60% and 40%, respectively. If UG makes no contribution towards exploration expenditures in any year, all UG's rights under the Uranium Joint Venture Agreement are terminated. Where either party contributes a part but not all of its share of such exploration expenditures in any year, its interest in any such mining lease or company is diluted accordingly. All obligations of UG and Brinex to contribute to exploration expenditures have been met to date.

On December 27, 1978 UG granted to Brinex an option to acquire or to arrange the sale of its 40% interest ("UG Interest") in the Uranium Joint Venture Agreement. On July 31, 1979, Brinex exercised this option and on August 10, 1979 the UG Interest was transferred to SBC Financial Limited ("SBC Financial") as trustee, to be conveyed to Edison Development Canada Inc. ("Commonwealth Canada"), a wholly-owned Canadian subsidiary of Commonwealth Edison Company ("CE") of Chicago, Illinois, or failing it to Tinto Holdings Canada Limited ("Tinto Holdings"), a company in the RTZ Group, or failing it to Brinex, on or before December 31, 1979. The purchase price of the UG Interest was \$10.1 million plus interest at the prime rate charged by The Royal Bank of Canada on \$9 million of the purchase price from May 1, 1979 to August 10, 1979, the date of transfer. SBC Financial advanced the sum of \$10.1 million to UG and Brinex paid UG interest in the amount of \$300,000. Failing acquisition by Commonwealth Canada or Tinto Holdings of the UG Interest, Brinex is obligated to repay the \$10.1 million together with interest at the same rate.

Brinco and Brinex have entered into an agreement (the "Purchase Agreement") made as of August 16, 1979 with Commonwealth Canada providing for the acquisition by Commonwealth Canada of the UG Interest. The purchase price to be paid by Commonwealth Canada for such acquisition is \$10.1 million plus interest at the rate being charged by SBC Financial thereon (to a maximum of 12%) from the date of receipt of the approval referred to in clause (iii) below to the date of acquisition. In addition, at the time of acquisition of the UG Interest, Commonwealth Canada is to reimburse Brinex for one half of the amount of interest paid by Brinex to UG. Following completion of such acquisition, Commonwealth Canada will be a party to the Uranium Joint Venture Agreement and will be bound by its terms and conditions, including the payment of its share of exploration expenditures. The acquisition by Commonwealth Canada of the UG Interest under the Purchase Agreement is subject to receipt of various approvals including that of:

(i) the Governor-in-Council under FIRA;

(ii) the Illinois Commerce Commission; and

(iii) the Minister of Energy, Mines and Resources of Canada. This ministerial approval is required, among other things, to assure that the proposed acquisition and ownership by Commonwealth Canada will comply with Canadian government policy concerning the ownership of uranium undertakings in Canada and control of enterprises in Canada engaged in the extraction or processing of uranium. Reference is made to the heading "Legislation and Controls — Uranium Mining Control" on page 48.

In July 1979, the Minister of Energy, Mines and Resources confirmed to Brinco that the transfer of the UG Interest to Commonwealth Canada, Tinto Holdings or Brinex does not conflict with the Canadian government policy principles outlined in Bill C-64. Reference is made to the heading "Legislation and Controls — Uranium Mining Control" on page 48.

If the approvals referred to above are not obtained and the various conditions set forth in the Purchase Agreement are not satisfied, Commonwealth Canada is not obliged or entitled to purchase the UG Interest. In that event, Tinto Holdings will purchase the UG Interest provided approvals applicable to it are received.

Kitts and Michelin Deposits

The uranium bearing rocks within Area 'A' and Area 'B' are dominantly bedded formations of Proterozoic age composed largely of volcanic debris and associated sediments. Deformation subsequent to their deposition has folded and tilted the originally flat-lying beds into near vertical attitudes. Many uranium showings are known within Area 'A' and Area 'B' and in ground to the east (Aillik area) and west (Moran Lake area). These latter two areas are the subject of exploration programmes by Brinex in joint ventures with other parties.

The most significant uranium discoveries in the Joint Venture Areas are known as the Kitts deposit and the Michelin deposit, both of which are located in Area 'A'.

The Kitts deposit was discovered in 1956 and surface diamond drilling to define reserves was carried out at various times between 1957 and 1978. Underground drilling and development took place in 1958 and 1975. A total of 40,700 feet of surface and underground drilling and 3,000 feet of underground lateral development have been used to establish ore reserves for this deposit.

The Michelin deposit was discovered in 1968 and surface diamond drilling was undertaken in 1969-70 and 1975-76. A programme of underground drilling and development was also carried out in 1975. A total of 93,800 feet of surface and underground drilling and 2,300 feet of underground lateral development have been used to establish ore reserves for this deposit.

In 1978, Derry, Michener & Booth, Consulting Geologists, were retained to review and interpret the exploration data relating to the Kitts and Michelin deposits and to provide estimates of geologically correlatable reserves. Their report was submitted in January 1979 and is summarized below.

	Indicated Reserves			Inferred Reserves		
	Short Tons	Average Grade % U_3O_8	Total U_3O_8 in lbs.	Short Tons	Average Grade % U_3O_8	Total U_3O_8 in lbs.
Kitts deposit	50,300	1.02	1,025,500	153,600	0.73	2,242,700
Michelin deposit	5,482,000	0.14	15,349,600	716,000	0.13	1,861,600

The total indicated and inferred reserves for the two deposits are 20,479,400 pounds of U_3O_8.

Note:

The following generally accepted reserve classifications have been used in these estimates:

"indicated reserves" means reserves for which tonnage and grade are computed partly from specific measurements, samples or production data, and partly from projection for a reasonable distance on geological evidence, and for which the sites available for inspection, measurement, and sampling are too widely or otherwise inappropriately spaced to outline the material completely or to establish its grade throughout.

"inferred reserves" means reserves for which quantitative estimates are based largely on broad knowledge of the geologic character of the deposit and for which there are few, if any, samples or measurements, and for which the estimates are based on an assumed continuity or repetition for which there are reasonable geological indications, which indications may include comparison with deposits of similar type, and bodies that are completely concealed may be included if there is specific evidence of their presence.

The main mineralized zones of the Michelin deposit have been drilled to a depth of 850 feet. Available geological evidence indicates that the mineralization is open to depth. The Kitts deposit does not appear to have significant additional reserve potential. There is potential for economic development of other known showings in Area 'A' and Area 'B' but on geological evidence currently available these could only be developed in the context of a central mining operation.

The Kitts and Michelin deposits are mineralogically simple, containing the uranium mineral known as pitchblende or uraninite together with iron oxides and sulphides. No metallurgical problems are anticipated. Neither the Kitts nor the Michelin deposit has any significant base or precious metal content.

Project Development

In February 1979 Kilborn Limited, Engineering Consultants, were commissioned to evaluate the project and prepare a feasibility study. This study was completed in June 1979 and indicated that the project could sustain a development as conceived.

The feasibility study is based on the development of the Kitts and Michelin deposits over a 15 year mine life using both open pit and underground mining methods. Ore from both mines would be treated in a concentration plant located at the Michelin site. An all-weather road link would be established to Goose Bay, approximately 85 miles to the south.

Production would be at rates varying between 1,000,000 and 1,300,000 pounds of U_3O_8 per year. Based on the feasibility study, Brinco estimates that capital costs prior to the start of production will approach $160 million and that capital costs during production, including capital replacements, will be $40 million. A large portion of the capital cost during production is the development cost for the underground mining of the Michelin deposit. The feasibility study indicates that the project is economically attractive.

In February 1979 work was also undertaken to prepare an environmental impact statement ("EIS"), a preliminary site evaluation report and a preliminary safety report. These reports are requirements of both the Federal Government and the Province of Newfoundland.

The EIS is required in order to obtain environmental approval for the project. The site and safety reports are required in order to obtain a development licence from the Atomic Energy Control Board, for the project. The EIS was submitted in early May 1979. Preliminary site and safety reports were submitted in June and July 1979, respectively. Public meetings on project development concepts have been held in four local communities including Happy Valley — Goose Bay, Labrador.

Current work plans call for the completion of a work programme that is required in order to confirm the feasibility study and provide additional information in support of the site and safety reports.

The feasibility study is based on a conceptual schedule which calls for preliminary road construction work to commence in 1979 with a mill start-up schedule for mid-1982. If approvals are not advanced sufficiently to commence road construction in 1979, mill start-up would likely be delayed beyond 1982.

Agreement in Principle with CE and Commonwealth Canada

CE, Commonwealth Canada, Brinex and Brinco have also entered into an outline (the "Outline") dated as of August 16, 1979, setting out the principal terms to be embodied in the following three agreements to be negotiated:

(i) an agreement (the "Project Agreement") among Commonwealth Canada, Brinex and Brinco relating to the evaluation, design, development, construction, financing, ownership and operation of a project (the "Labrador Project") to mine and produce natural uranium ore concentrates from the Kitts and Michelin deposits;

(ii) an agreement (the "Sale Agreement") among Commonwealth Canada, Brinex, CE and Brinco relating to the sale to CE of U_3O_8 to be produced from the Labrador Project; and

(iii) an agreement (the "Management Agreement") between Commonwealth Canada and Brinex providing for the supervision and management by Brinex of the construction and operation of the Labrador Project.

The outline does not constitute a binding agreement among the parties.

CE and Commonwealth Canada have agreed with Brinex that they will have no rights or obligations under the Outline, Project Agreement or Sale Agreement unless and until the UG Canada Interest has been acquired by Commonwealth Canada. In addition, if Commonwealth Canada acquires the UG Interest, and by January 31, 1980 the Project Agreement and Sale Agreement have not been executed by the parties and certain approvals referred to below have not been obtained, Commonwealth Canada must sell and Brinex must purchase the UG Interest at a price (the "Reacquisition Price") equal to the sum of (i) $10.1 million, and (ii) any amount expended by Commonsealth Canada on exploration expenditures under the Uranium Joint Venture Agreement, with interest on such amounts at the prime rate charged by The Royal Bank of Canada from the respective dates that Commonwealth Canada expended such amounts until the date of payment by Brinex to Commonwealth Canada.

Under the terms of the Outline, Brinex is to conduct an evaluation (the "Evaluation") of the Labrador Project. The Evaluation is currently being conducted by Brinex and is to include a comprehensive investigation, analysis and evaluation of all geological, construction, operational, environmental, financial and other considerations relating to the Labrador Project. It is to be based upon bringing the mines for the Labrador Project into production at rates sufficient to permit the production of not less than 1,000,000 pounds of U_3O_8 per year during the life of the economically recoverable reserves. The Evaluation is to be completed and a written project report thereon is to be submitted to Commonwealth Canada and CE not later than December 31, 1979. Upon receipt of this project report, the parties to the Outline are to settle and agree upon the scope (the "Scope") of the Labrador Project. If the parties do not agree upon the Scope by January 31, 1980, Brinex has the option, but not the obligation, to acquire the UG Interest on or before February 29, 1980 at the Reacquisition Price.

If the project report discloses that the economics of the Labrador Project are less favourable to CE than those shown in an earlier feasibility study conducted by Brinex, having regard to the estimates of floor prices, capital costs (expressed in 1978 dollars) and ore reserves contained in such earlier study, then unless such economics can be restored by including reserves outside the area of the Labrador Project or by other acceptable changes, CE may at its option terminate the Sale Agreement and the Project Agreement. If CE exercises its option to terminate the Sale Agreement, Brinex will be entitled, at its option, to be exercised within three months of the date of such termination, to purchase the UG Interest from Commonwealth Canada at the Reacquisition Price.

The following is a summary of several more of the important provisions of the Outline:

Construction — Once the Scope of the Labrador Project has been agreed upon, it will be the responsibility of Brinex to construct the Labrador Project in accordance with the Scope.

Ownership — Brinex and Commonwealth Canada are to have undivided 60% and 40% interests respectively in the Labrador Project and in all mining leases acquired pursuant to the Uranium Joint Venture Agreement.

Financing — Except as otherwise agreed, Brinex and Commonwealth Canada are to participate on a 60/40 basis in all aspects of the Labrador Project including all indebtedness and obligations relating thereto. Commonwealth Canada has undertaken to seek financing for 90% of the capital cost of bringing the Labrador Project into production. From the proceeds of the loan, 40% will be contributed by Commonwealth Canada to its portion of the cost of the Labrador Project and the remaining 60% will be loaned by Commonwealth Canada to Brinex (at an interest rate not greater than Commonwealth Canada's cost of borrowing plus 1%) and contributed by Brinex to its portion of such capital cost. The remaining 10% of the capital cost will be contributed by Commonwealth Canada and Brinex in proportion to their respective interests of 40% and 60%. The amount of the loan is subject to increase due to cost escalation caused by inflation. Brinex is obliged, however, to pay any cost overruns in the construction of the Labrador Project which result from changes from the Scope that are not otherwise agreed to by Commonwealth Canada.

The financing for the construction of the Labrador Project will be secured by a first mortgage against the interests of Brinex and Commonwealth Canada in the Labrador Project and a floating charge against the undertaking and remaining properties and assets comprising a part of the Labrador Project.

Sale Agreement — Under the Sale Agreement the entire production of U_3O_8 from the Labrador Project, up to a maximum of 18 million pounds, is to be sold to and purchased by CE. CE has the option to limit the aggregate annual quantity of U_3O_8 to be sold to it to one million pounds. The purchase price to be paid by CE in each year for each pound of U_3O_8 produced in such year shall be greater of (i) the floor price and (ii) 95% of the market price for such year. The floor price includes loan interest and repayments, actual operating costs, a management fee to be paid to Brinex, an interest charge on equity contributions, and certain other allowances for exploration and close down costs.

Management Agreement — Under the Management Agreement Brinex will be entitled during the construction of the Labrador Project to a monthly management fee of $12,500 and during operation to an annual management fee equal to 5% of the operating costs incurred in the year.

Approvals — The entering into by the various parties of the Project Agreement and the Sale Agreement is conditional upon the obtaining of various approvals, including approval of the Governor-in-Council under FIRA, the Department of Energy, Mines and Resources of Canada, the Atomic Energy Control Board under the Atomic Energy Control Act (Canada) and the Illinois Commerce Commission.

Brinco Guarantee — Brinco is to guarantee the performance of all the obligations of Brinex under the Project Agreement, the Sale Agreement and the Management Agreement.

Exploration

Boulders with high grade uranium mineralization were discovered in 1978 at Mustang Lake in Area 'A' (where grades range from 1% to 6% U_3O_8) and at Melody Hill in Area 'B' (where grades range from 2% to 18% U_3O_8). Extensive follow-up geophysics, geochemistry and geological mapping were undertaken in 1978 on Melody Hill and a 9,000 foot drilling programme is currently under way. Detailed follow-up, including geophysics, geochemistry and geological mapping, is currently being undertaken in the Mustang Lake area. Prospecting in Area 'A' in 1978 indicated that the McLean Lake area might have more potential than previously realized, and grades of up to 0.5% U_3O_8 were established in outcrop and talus. Follow-up in this area is planned for late 1979 or 1980.

In the Moran Lake area, to the southwest of Area 'B', where Brinex is in partnership with Canadian Nickel Company Limited, airborne radiometric and magnetometer surveys of selected areas conducted in 1977 and 1978 resulted in several new discoveries of radioactive outcrops and boulders. To the northeast of Area 'A', in the Aillik area, where Brinex participates in a joint venture with Placer Development Limited, airborne radiometric and V.L.F. surveys together with silt sampling, geological mapping and geophysics were carried out in 1978. Detailed ground follow-up of anomalous areas is currently under way.

(b) *Saskatchewan*

Approximately 350 square miles are held under joint venture in three areas within the Athabasca basin of Saskatchewan. At Russell Lake, the most advanced prospect, analysis of geophysical data indicates that a favourable geological environment underlies the property and lake sediment geochemical and radon anomalies are coincident with this. Detailed geophysical surveys are currently under way and a drilling programme will be undertaken in late 1979.

(c) *Other Areas*

Brinex is a minority partner in a joint venture uranium exploration programme in the Okanagan area of southern British Columbia where a lake sediment testing programme is currently under way. Union is a joint venture partner in an uranium exploration programme in the southern United States where exploratory drilling is currently under way.

Industrial Minerals

(a) Asbestos — Abitibi Asbestos Mining Company Limited

Brinco holds 3,921,332 common shares of Abitibi Asbestos Mining Company Limited ("Abitibi"), representing 60.1% of the issued and outstanding shares of Abitibi. Abitibi is a public company whose common shares are listed on the Toronto and Montreal stock exchanges.

Abitibi is the beneficial owner of 159 mining claims covering approximately 12,509 acres located in Maizerets and Soissons Townships in the District of Abitibi, approximately 52 miles north of the Town of Amos in Quebec. The properties are approximately 50 miles from the nearest railroad line and are reached by the Amos-Matagami highway. Diamond drilling on an area of 1,200 acres has identified substantial asbestos mineralization. This deposit lies 1.5 miles from the highway.

Prior to 1972, Abitibi carried out an intensive drilling programme, which had delineated an asbestos deposit, and a limited bulk sampling programme. Subsequent to 1972, Brinco rehabilitated the underground workings at the 200 foot level, extended the underground development and mined 26 bulk samples. A 30 ton per day pilot plant and quality control laboratory were constructed and operated at the mine site. R.T.Z. Consultants Limited, then a subsidiary of RTZ, was retained to assist Brinco in the development of a computerized model of the deposit based on data obtained from more than 80,000 feet of surface diamond drilling and the bulk sample programmes. Open pit mine planning studies were also carried out by R.T.Z. Consultants Limited to establish the optimum mining strategy and production plan capacities. A joint venture consulting organization of SNC Services Limited and Canadian Bechtel Limited was retained to provide capital and operating cost estimates.

Based on the foregoing studies, it was estimated in 1976 that capital expenditures of approximately $300 million would be required to bring the deposit into commercial production. The concept for mining and recovering asbestos fibre included a production schedule which called for the processing of a minimum of 103 million tons of fibre-bearing rock at the rate of seven million tons per year, having an average gross value of approximately $10 per ton, at list prices current in February 1976. Since February 1976, list prices have increased by approximately 35%. The capital costs required to bring the deposit into commercial production have not been re-estimated since 1976.

Since 1976, discussions have continued between Abitibi, the Province of Quebec and major asbestos producers concerning the possible development of the deposit. Brinco intends to re-examine the reserves, the mining plan and the overall economics of the project in 1980. Reference is made to the heading "Approval Under the Foreign Investment Review Act" on page 15.

(b) *Limestone*

The Brinex concession on the Port-au-Port peninsula of western Newfoundland contains a deposit of high quality limestone suitable for the manufacture of cement. Diamond drilling carried out in 1973 established possible reserves in excess of 300 million tons of limestone. In 1974 a feasibility study of a one million ton per year cement plant on the Port-au-Port property was undertaken but it was decided not to pursue the project at that time. A study is currently in progress to evaluate the possible development of this deposit to supply agricultural and industrial limestone.

Base Metals

(a) *Washington State Zinc*

Union has a 25.5% equity interest in a former zinc producing property in Stevens County, Washington. United States Borax and Chemical Corporation, a company in the RTZ Group, holds a 25.5% interest through a wholly-owned subsidiary and Callahan Mining Corporation holds the remaining 49% interest and is the operator under a joint venture agreement. The property lies about 35 miles from the Cominco smelter at Trail, British Columbia, and 130 miles from the Bunker Hill smelter at Kellogg, Idaho.

In 1974 the joint venture partners undertook a drilling programme to continue exploration which had been started by Callahan Mining Corporation in 1971. In 1977 they completed a feasibility study of underground mining based on recoverable reserves as at January 1, 1977, which were calculated to be 6.54 million tons of 0.57% lead and 3.55% zinc.

In light of current world zinc prices, the grade is considered insufficient to warrant resumption of mining and milling operations. However, in view of the existing and estimated minimal environmental problems, the property could be brought on stream quickly if and when zinc prices improve.

(b) *Other Properties*

Brinex currently has interests in active exploration programmes for zinc and other base metals in the Yukon, central and western Newfoundland and Ontario, and for gold in southwestern Newfoundland.

The following is a summary of the 1978 results in the two most advanced programmes:

Ogilvie Joint Venture

Brinex is the largest single partner (holding an approximate 48% interest) in the Ogilvie Joint Venture which is exploring for stratiform zinc-lead-silver deposits in the eastern Yukon. Mineralization has been encountered in two zones on the Jason property at Macmillan Pass. Further work including drilling is planned for late 1979. Subject to fulfilling certain expenditure commitments, Pan Ocean Oil Ltd. will have a right to earn an interest in the Jason claims. Brinex's interest could then be reduced to approximately 38% or 24%, depending on the amount of expenditures incurred by Pan Ocean Oil Ltd. over an agreed period of time.

Cape Ray Project

Rio Tinto Canadian Exploration Limited, the exploration affiliate of Rio Algom Limited, a company in the RTZ Group, is the operator and majority partner in a joint venture exploring for gold in the Cape Ray region of southwestern Newfoundland. Brinex holds a 10% non-assessable undivided interest in this project. Drilling to date has outlined three small gold bearing bodies and further work is necessary to define the grades and size limits.

Oil and Natural Gas

Brinco's principal interest in oil and natural gas is represented by its holding of 2,565,649 common shares of Coseka Resources Limited ("Coseka"), representing 25.3% of Coseka's outstanding common shares. Coseka is a public company whose common shares are listed on the Toronto and Vancouver stock exchanges and is engaged, directly and through subsidiary and affiliated companies, in the exploration for and development of natural resources, primarily natural gas, oil and sulphur principally in western Canada and the United States.

In its unaudited statement of income for the nine month period ending April 30, 1979, Coseka announced that revenues before royalties were $11,430,264, compared to $9,246,672 for the same period in 1978. Net income for the period was $2,266,837, compared to $2,787,480 for the same period in 1978.

Since one result of the Merger will be that Brinco will have a more active and direct participation in the oil and gas industry, Brinco is considering the possible sale of its interest in Coseka.

Legislation and Controls

Foreign Investment Review Act

Under the Foreign Investment Review Act (Canada) ("FIRA"), the acquisition of control of Canadian business enterprises and the establishment of new businesses in Canada by non-eligible persons (as defined) are, with certain exceptions, subject to review and assessment by the Foreign Investment Review Agency and approval by the Governor-in-Council. The main criterion for approval is whether the acquisition or new business is or is likely to be of significant benefit to Canada. Brinco is a non-eligible person for the purpose of FIRA. The issue of the Brinco Shares to the Conuco Shareholders in connection with the Merger, will not, of itself, alter Brinco's current status under FIRA.

Uranium Mining Control

On March 19 and May 5, 1970, the then Minister of Energy, Mines and Resources informed the House of Commons of the Federal Government's position with respect to ownership in the Canadian uranium industry. He stated that the Government proposed to limit by regulation the extent of ownership of uranium producing enterprises in Canada by non-residents of Canada, the definition of which, by reason of RTZ's beneficial shareholding, would include Brinco. The regulations would set a limit of 33% upon the aggregate foreign ownership of any uranium property of established productive capacity and a limit of 10% on the ownership of such a property which may be held by any one foreign investor or group of associated foreign investors. Subject to certain restrictions on sale to non-residents, foreign controlled companies actively engaged in exploration on a uranium property on March 2, 1970 would be permitted to retain their holdings as of that date if they proved to the satisfaction of the Atomic Energy Control Board of Canada by March 2, 1976 that they had a commercially viable uranium deposit on such property.

Prior to March 2, 1976 Brinex established to the satisfaction of the Canadian Atomic Energy Control Board that commercially viable deposits of uranium ore exist in areas subject to the Uranium Joint Venture Agreement.

On June 29, 1978 Bill C-64, entitled the "Uranium and Thorium Mining Review Act", (the "Bill") was introduced and received First Reading in the House of Commons. The purpose of the Bill was to formalize the previously announced policy of the Federal Government (as referred to above) of controlling the extraction of uranium and thorium in Canada by non-residents. Upon the dissolution of Parliament in October 1978, the Bill died on the Order Paper.

As described under the heading "Business and Properties of Brinco — Uranium — Kitts and Michelin Deposits" on page 42, the Kitts and Michelin deposits were discovered in 1956 and 1968, respectively. On October 7, 1970 the then Minister of Energy, Mines and Resources confirmed to Brinco that the acquisition by MG of its 40% equity interest under the Uranium Joint Venture Agreement would not contravene the policy of the Federal Government announced in the statements of the Minister referred to above. On April 28, 1975 the then Minister of Energy, Mines and Resources consented to the assignment by MG of its interest in the Uranium Joint Venture Agreement to UG. As noted above under the heading "Acquisition of UG Interest in Uranium Joint Venture Agreement", the Minister of Energy, Mines and Resources advised Brinco on July 16, 1979 that the transfer by UG of its interest in the Uranium Joint Venture Agreement to Commonwealth Canada, Tinto Holdings or Brinex does not conflict with the Canadian government policy principles outlined in the Bill.

On September 5, 1974, the Federal Government also announced a policy which, in general, would require Canadian uranium mining companies to reserve for Canadian utilities uranium resources economically recoverable at twice the current world market price in amounts sufficient to assure such utilities a 30 year supply of uranium to operate, at an annual capacity factor of 80%, nuclear reactors presently operating, under construction or planned for operation ten years into the future. Each mining company has or will have a reviewable reserve margin allocated to it based on the ratio of its uranium resources to the total Canadian recoverable resources from all such companies as estimated by a Federal Government appraisal group. Canadian utilities will be required to demonstrate that they are maintaining a contracted forward supply of nuclear fuel to enable them to operate at an annual capacity factor of 80% for at least 15 years. The policy further provides that export contract approvals are to be limited to a maximum of ten years from the date of the signing of the contract, with contingent approval possible for an additional five years. Such contingent approval will not be given unless provision is made for renegotiation of price for the uranium to be supplied during such additional period and will be subject to Canadian utilities having a right of recall through the Canadian Atomic Energy Control Board on a portion of the material subject to contingent approval. Under the policy, a domestic utility must give the Canadian Atomic Energy Control Board prior notice of at least five years that the right of recall will be exercised and must demonstrate that it is unable by other means to maintain its 15 year forward commitment. Any uranium so recalled could be supplied, on a short term basis, from the Federal Government stockpile. For producers with contracts calling for deliveries beyond ten years from the date of signing into the future, the Government may, on request, allow the ten year firm delivery period to move forward in time on an annual basis on the anniversary date of the contract signing. In the absence of specific exemption, uranium must be exported in the most advanced form possible in Canada (which at present involves conversion to UF_6 in the case of uranium to be used in enriched form), and foreign purchasers will be required to agree not to re-export the uranium, except subject to certain conditions.

On December 20, 1974, the Federal Government announced a further policy requiring the governments of all countries to which uranium is to be exported to agree, as a condition of such export, to safeguards arrangements containing binding assurance that such uranium will not be used to produce a nuclear explosives device, whether the development of such a device be stated to be for peaceful purposes or not.

Security, Environmental and Health Matters

Exploration for and mining and milling of U_3O_8 are subject to control by the Atomic Energy Control Board established pursuant to the Atomic Energy Control Act. Regulations established under the Atomic Energy Control Act set out requirements for the physical security of radioactive substances and uranium mining and milling facilities. Applications for licences to extract radioactive substances must include a description of measures to be taken to ensure physical security of such facilities. Reference is made to the heading "Uranium — Central Labrador Mineral Belt — Project Development" on page 43 for a discussion of an environmental impact statement with respect to the Labrador Project.

Directors and Officers

The full names, places of residence and positions held with Brinco and the principal occupations of its directors and officers are as follows:

Name and Place of Residence	Position	Principal Occupation
Edmond Jacques Courtois, Q.C., Montreal, Quebec	Director	Partner, Courtois, Clarkson, Parsons and Tetrault
Robert Baldwin Dale-Harris, Uxbridge, Ontario	Director and Chairman of the Board	Executive

Name and Place of Residence	Position	Principal Occupation
Lewis Wilson Foy, Bethlehem, Pennsylvania	Director	Chairman, Bethlehem Steel Corporation
Alistair Gilchrist Frame, London, England	Director	Deputy Chairman and Chief Executive, The Rio Tinto-Zinc Corporation Limited
Donald Ross Getty, Edmonton, Alberta	Director	President, D. Getty Investments Ltd.
Peter Hugh Grimley, Ph.D., Willowdale, Ontario	Vice-President	Vice-President, Exploration, Brinco Limited
John James Goodchild, C.A., Mississauga, Ontario	Comptroller	Comptroller, Brinco Limited
Ryuta Kawasaki, New York, New York	Director	Executive Vice-President Marubeni Corporation
Terence Heath Lewis, Oakville, Ontario	Treasurer and Manager, Corporate Development	Treasurer, Brinco Limited
Harry Winsor Macdonnell, Q.C., Toronto, Ontario	Director	Partner, McCarthy & McCarthy
Garth Alexander Clifton MacRae, Toronto, Ontario	Vice-President	Vice-President, Finance and Administration, Brinco Limited
James Calhoun O'Rourke, P.Eng., Mississauga, Ontario	Vice-President	Vice-President, Mining, Brinco Limited
Norbert Melville Peters, Oakville, Ontario	Vice-President, General Counsel and Secretary	Vice-President, General Counsel and Secretary, Brinco Limited
Harold Leslie Snyder, St. John's, Newfoundland	Director	Director, Centre for Cold Ocean Resources Engineering
Hugh Robin Snyder, Toronto, Ontario	Director and President and Chief Executive Officer	President and Chief Executive Officer, Brinco Limited
Sir Ronald Mark Cunliff Turner, London, England	Director	Chairman, The Rio Tinto-Zinc Corporation Limited

All of the directors and officers have held their present principal occupations for more than five years except as noted below:

From and prior to August 1974 and until March 1979 when he retired, Mr. Robert B. Dale-Harris was a senior partner of the Toronto Office, Central Region of Coopers & Lybrand.

From and prior to August 1974 and until January 1975, Mr. Alistair G. Frame was Managing Director of R.T.Z. Development Enterprises Limited, a company in the RTZ Group. He was appointed to the main board of RTZ in September 1973, became Deputy Chief Executive in January 1977, and was appointed to his present position in September 1978.

From and prior to August 1974 and until March 1975, Mr. Donald R. Getty was Minister of Federal and Inter-governmental Affairs and from April 1975 to March 23, 1979, Minister of Energy and Natural Resources in the Government of the Province of Alberta. From and prior to March 1974 and until March 1979, Mr. Getty was a Member of the Legislative Assembly of Alberta for the constituency of Edmonton Whitemud.

From and prior to August 1974 and until June 1975, Mr. John J. Goodchild was Site Controller of CFLCo. Mr. Goodchild was appointed to his present position in June 1975.

From and prior to August 1974 and until April 1975, Mr. Ryuta Kawasaki was Senior Mining Director of Marubeni Corporation. Mr. Kawasaki was appointed to his present position in April 1975.

From and prior to August 1974 and until April 1977 and from April 1978 to March 1979 Mr. Terence H. Lewis was Financial Manager and Manager, respectively, of R.T.Z. Oil and Gas Limited, a company in the RTZ Group and from April 1977 to April 1978 was Financial Evaluation Officer with Gas Gathering Pipelines (North Sea) Limited. Mr. Lewis was appointed to his present position in March 1979.

From and prior to August 1974 and until January 1975, Mr. Harry W. Macdonnell was Executive Vice-President of Brinco. From January 1975 to June 1975 he was President and Chief Executive Officer of Brinco. Mr. Macdonnell became a partner of McCarthy & McCarthy in September 1975.

From and prior to August 1974 and until April 1977, Mr. Garth A. C. MacRae was Treasurer of Hudson Bay Mining and Smelting Limited. From May 1977 until December 1978, he was Manager of the Finance and Administration Department of the same company. In January 1979 he became Vice President — Finance and Administration of that Department. In August 1979 he was appointed Vice President — Finance of Hudson Bay Mining and Smelting Limited. Mr. McRae was appointed to his present position on August 20, 1979.

From and prior to August 1974 and until February 1976 Mr. James C. O'Rourke was Assistant Manager of Gibraltar Mines Ltd. (N.P.L.). From February 1976 to January 1979, he was General Manager of Equity Mining Corporation. Mr. O'Rourke was appointed to his present position in January 1979.

From and prior to August 1974 and until March 1975 Mr. Norbert M. Peters was General Counsel of Brinco. In March 1975 Mr. Peters was appointed Vice-President and General Counsel of Brinco and in March 1979 also became Secretary of Brinco.

From and prior to August 1974 and until December 1974, Mr. Harold L. Snyder was a Vice-President of Brinco. Mr. Snyder was appointed to his present position in December 1974.

From and prior to August 1974 and until November 1974, Mr. Hugh R. Snyder was Manager, Corporate Development of Brinco. From February 1975 to August 1978, he was President and Chief Executive officer of Western Mines Limited. Mr. Snyder became President and Chief Executive Officer of Brinco in October 1978.

From and prior to August 1974 and until December, 1975, Sir Mark Turner was Deputy Chairman of RTZ and was appointed to his present position in December 1975.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or agreed to be paid by Brinco and its subsidiaries to directors and senior officers during the fiscal year ended December 31, 1978 was $584,000 and during the seven month period ended July 31, 1979 was $448,000.

The estimated aggregate cost to Brinco and its subsidiaries of all pension benefits to be paid in the event of retirement at normal retirement age, directly or indirectly, by Brinco to directors and senior officers of Brinco and its subsidiaries was $9,400 in the fiscal year ended December 31, 1978.

Options to Purchase Securities

Brinco's stock option plan provides for the granting to full-time officers and other employees of Brinco or its subsidiaries of options to purchase an aggregate of 200,000 Brinco Common Shares, at a price per share not less than 90% of the market price of the Brinco Common Shares if such market price is more than $5.00 per share or 85% of the market price of the Brinco Common Shares if such market price is $5.00 or less. For such purposes the market price in each case is the market price on the Montreal Stock Exchange on the business day before the date on which the option is granted. Under the plan, options are granted for a term of not more than five years during employment by Brinco or its subsidiaries. Reference is also made to the heading "The Merged Company — Stock Options" on page 64.

As at July 31, 1979 there were outstanding options to purchase in the aggregate 147,000 Brinco Common Shares and 162,900 Brinco Common Shares were reserved for issuance upon the exercise of options granted or which may be granted under such plan.

Details of options outstanding under the plan as at July 31, 1979 are as follows:

Directors and Senior Officers of Brinco	All other Employees of Brinco	Date of Grant	Normal Expiry Date	Option Price Per Share	Market Price at Date of Grant
10,000	—	September 2, 1976	September 2, 1981	$4.00	$4.00
—	15,000	September 2, 1976	September 2, 1981	$4.00	$4.00
50,000	—	August 31, 1978	August 31, 1983	$7.00	$7.25
30,000	—	January 22, 1979	January 22, 1984	$6.30	$7.00
15,000	27,000	February 26, 1979	February 26, 1984	$7.00	$7.87

The last sale price of Brinco Common Shares on The Toronto Stock Exchange on August 22, 1979 was $7.625 per share.

Principal Holders of Securities

The following table lists each shareholder who, to the best of the knowledge of the directors and officers of Brinco, now owns and will own after giving effect to the Merger beneficially, directly or indirectly, more than 10% of any class of the outstanding equity shares of Brinco:

Name and Address	Class and No. of Shares Owned	Type of Ownership	Percentage of Class Prior to Merger	Percentage of Class After Giving Effect to Merger
The Rio Tinto-Zinc Corporation Limited, London, England	12,116,031 Common Shares	Beneficial and of record (1)	82.5% (2)	72.0% (2)
M. Ted Riback, Calgary, Alberta	274,691 Common Shares	Beneficial (3)	—	1.6%
	274,691 Preferred Shares Series A		—	12.7%
	274,691 Preferred Shares Series B		—	12.7%

Name and Address	Class and No. of Shares Owned	Type of Ownership	Percentage of Class Prior to Merger	Percentage of Class After Giving Effect to Merger
C. Alan Smith, Calgary, Alberta	268,825 Common Shares 268,825 Preferred Shares Series A 268,825 Preferred Shares Series B	Beneficial (4)	— — —	1.6% 12.4% 12.4%
Thomas N. Dirks, Calgary, Alberta	268,025 Common Shares 268,025 Preferred Shares Series A 268,025 Preferred Shares Series B	Beneficial (5)	— — —	1.6% 12.4% 12.4%
James R. Kassube, Calgary, Alberta	268,825 Common Shares 268,825 Preferred Shares Series A 268,825 Preferred Shares Series B	Beneficial (6)	— — —	1.6% 12.4% 12.4%

NOTES:

(1) Of these shares 12,113,831 are owned of record by Thornwood (80% of the outstanding shares of which is beneficially owned indirectly by RTZ and 20% of the outstanding shares of which is beneficially owned indirectly by Bethlehem Steel Corporation), 2,100 are owned of record by Tinto Holdings (all of the outstanding shares of which are beneficially owned indirectly by RTZ) and 100 shares are owned directly by RTZ.

(2) As a result of its direct and indirect holdings, RTZ controls before giving effect to the Merger 12,116,031 or 82.5% of the outstanding Brinco Common Shares, while its net beneficial interest expressed as a percentage of all outstanding Brinco Common Shares is 66.0%. After giving effect to the Merger, RTZ will control 72.0% of the Brinco Common Shares and its net beneficial interest expressed as a percentage of all outstanding Brinco Common Shares will be 57.6%.

(3) Of these shares 268,025 will be owned of record by Riback Investment Corporation Limited, all the outstanding shares of which are owned by Mr. M. Ted Riback.

(4) Of these shares 268,025 will be owned of record by C. A. Smith Resources Ltd., all the outstanding shares of which are owned by Mr. C. Alan Smith.

(5) To be owned of record by Sage Holdings Ltd., all the outstanding shares of which are owned by Mr. Thomas N. Dirks.

(6) Of these shares 268,025 will be owned of record by Sperry Exploration Ltd., all the outstanding shares of which are owned by Mr. James R. Kassube.

As at July 31, 1979 the directors and senior officers of Brinco, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding Brinco Common Shares.

After giving effect to the Merger and the appointments of Messrs. C. Alan Smith and George H. Plewes to the board of directors of Brinco, the directors and senior officers of Brinco, as a group, will beneficially own directly and indirectly 3.4% of the outstanding Brinco Common Shares, 26.6% of the outstanding Brinco Preferred Shares Series A and 26.6% of the outstanding Brinco Preferred Shares Series B, in each case without giving effect to any conversions of Brinco Preferred Shares. Reference is made to the heading "The Merged Company — Directors and Officers" on page 64.

Partners and associates of McCarthy & McCarthy beneficially own, directly or indirectly, the following securities of Brinco and its affiliates: 400 common shares of Brinco, 200 $5.80 Cumulative Redeemable First Preference Shares Series A, par value $100, and 3,400 common shares without par value of Rio Algom Limited and 100 common shares without par value of Indal Limited.

Undertaking Relating to Foreign Ownership

In connection with the application by Brinco to the Foreign Investment Review Agency for approval of the proposed acquisition resulting from the Merger and in connection with the approval by the Minister of Energy, Mines and Resources in respect of the transfer of the UG Interest, Thornwood intends to furnish to the Foreign Investment Review Agency an undertaking to the effect that it will take or cause to be taken all necessary and required steps within its power to increase the ultimate beneficial ownership of Brinco by resident Canadians to levels satisfactory to both Thornwood and the Foreign Investment Review Agency.

Thornwood contemplates that such increase could be effected over a reasonable period of time by various means, including the issue of additional shares of Brinco to the public, by way of private placement, by way of a rights issue or in consideration for the purchase of assets and the sale by Thornwood of shares of Brinco to persons who are not "non-eligible persons", in each case under commercially prudent terms.

The terms of such undertaking, when settled between Thornwood and the Foreign Investment Review Agency, will be conditional upon the receipt by Thornwood's beneficial shareholders of all required regulatory consents and approvals.

Ownership and Trading in Securities of Conuco and its Affiliates

Brinco beneficially owns 40,600 Conuco Common Shares (representing less than 1% of the outstanding Conuco Common Shares) which were acquired between May 11, 1979 and July 26, 1979 at an average purchase price of $5.36 per share. Brinco beneficially owns one 91639 Preferred Share acquired on June 14, 1979 for $1.00 for purposes of effecting the Merger. Save as aforesaid, no securities of Conuco or any of its affiliates are beneficially owned, nor is control or direction exercised over any such securities, directly or indirectly, (i) by Brinco, any associate or affiliate of Brinco, or any director or senior officer of Brinco or their associates or (ii) to the best of the knowledge of the directors and officers of Brinco, by any person or company who beneficially owns, directly or indirectly, or exercises control or direction over, shares of Conuco or any of its affiliates carrying more than 10% of the voting rights attached to all the outstanding equity shares of Conuco or any of its affiliates, except for certain directors and senior officers of Conuco who hold indirectly 3,216,307 Conuco Common Shares representing 57.3% of the issued and outstanding Conuco Common Shares. Reference is made to the headings "Merging Companies" on page 3 and "Conuco — Holders of Securities" on page 25. To the best of the knowledge of the directors and officers of Brinco, save as aforesaid, none of the persons or companies referred to above have traded in shares of Conuco during the past six months.

Material Contracts

Except for contracts made in the ordinary course of business, the only material contracts entered into by Brinco within the two years preceding the date hereof are the following:

(i) Merger and Amalgamation Agreement made as of June 13, 1979 among the Merging Companies;

(ii) Option Agreement made as of December 27, 1978 between UG and Brinex relating to an option granted to Brinex to acquire the UG Interest; and

(iii) Purchase Agreement made as of August 16, 1979 among Brinco, Brinex and Commonwealth Canada relating to the acquisition by Commonwealth Canada of the UG Interest.

Reference is made to Part II "The Proposed Merger" commencing on page 3 and to the headings "Brinco — Central Labrador Mineral Belt" on page 40 and "Agreement in Principle with CE and Commonwealth Canada" on page 43.

Copies of the above-mentioned contracts may be examined at Brinco's executive offices, 20 King Street West, Toronto, Ontario, during normal business hours at any time prior to the close of business on September 26, 1979.

Prior Issues of Brinco Common Shares

The following is a quarterly summary of issues of Brinco Common Shares by Brinco during the past 12 months. All such issues have been through the exercise of stock options only.

Three Months Ended	No. of Shares Issued	Received in Cash
October 31, 1978	14,100	$56,400
January 31, 1979	3,500	$14,000
April 30, 1979	15,500	$62,000
July 31, 1979	4,000	$17,500

Dividend Record

Brinco paid a special dividend on the outstanding Brinco Common Shares on October 15, 1974 of $1.20 per share aggregating $29,531,000. Brinco has not paid any other dividends on any class of shares during the last five years.

V. DESCRIPTION OF BRINCO SHARES

Authorized and Issued Capital of Brinco

The authorized capital of Brinco presently consists of 35,000,000 common shares without nominal or par value (the "Brinco Common Shares") of which 14,675,018 shares are issued and outstanding as fully paid at the date hereof and 147,000 unissued Brinco Common Shares are reserved for issue pursuant to outstanding employee stock options. In addition, there are 9,973,067 Brinco Common Shares held by Brinco which have been designated by legislation of the Province of Newfoundland as Class A Shares of Brinco for so long as such shares are held by Brinco. While any of such Class A Shares are held by Brinco they are deemed not to be outstanding and are not entitled to receive any dividends or any other payment or distribution. Class A Shares may be re-issued by the directors of Brinco at any time for such consideration as the directors may determine and upon such re-issue become re-designated as Brinco Common Shares having all the rights and characteristics attributable to the Brinco Common Shares as described on page 62.

Creation of Brinco Preferred Shares

Contemporaneously with the mailing of this Information Booklet, Brinco has called the Brinco Shareholders Meeting to be held September 24, 1979 for the purpose, among other things, of authorizing the creation of a class of 10,000,000 preferred shares with a par value of $5.50 each (the "Brinco Preferred Shares") issuable by the directors of Brinco in series, which will enable Brinco to perform its obligations in respect of the Exchange Privilege and the Redemption Obligation.

If the creation of the Brinco Preferred Shares is approved at the Brinco Shareholders Meeting, the directors of Brinco will, immediately following the registration with the Registrar of Companies (Newfoundland) of the special resolution creating such shares, designate approximately 2,250,000 Brinco Preferred Shares as the Brinco Preferred Shares Series A and approximately 2,150,000 Brinco Preferred Shares as the Brinco Preferred Shares Series B.

The following is a summary of the material rights, privileges, preferences, conditions and restrictions to be attached to the Brinco Preferred Shares as a class and to the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B. The full attributes of the Brinco Preferred Shares, the Brinco Preferred Shares Series A and the Brinco Preferred Shares Series B are to be as set forth in Parts A, B and C, respectively, of the Appendix to this Information Booklet. All defined terms used in the summary which follows are used with the same meanings as set forth in the aforementioned Appendix. Also set forth below is a summary of the material rights and characteristics of the Brinco Common Shares.

Brinco Preferred Shares Class Provisions

Issuance in Series. The directors may from time to time issue Brinco Preferred Shares in one or more series, each series to consist of such number of shares as shall before issuance be determined by the directors who shall fix the designation, rights, privileges, preferences, restrictions and conditions to attach to each series of Brinco Preferred Shares including the rate of preferential dividends (if any), whether cumulative, non-cumulative or partially cumulative, and the dates and places of payment thereof; the restrictions (if any) respecting payment of dividends on Junior Shares as defined on page A-1 in Part A of the Appendix; the rights of Brinco (if any) to redeem any Brinco Preferred Shares and the consideration for and terms and conditions of any such redemption; the rights of retraction (if any) vested in the holders of Brinco Preferred Shares; the voting rights (if any) and the conversion rights (if any); any redemption, sinking or analogous fund; or other provisions attaching to the Brinco Preferred Shares of such series.

Rateable Participation. When any fixed cumulative dividends or amounts payable on a return of capital are not paid in full, the cumulative Brinco Preferred Shares of all series shall participate rateably in respect of such dividends, including accumulated dividends, if any, (but only to the extent of and in those cases where a series of Brinco Preferred Shares bears cumulative dividends) in accordance with the sums which would be payable on the cumulative Brinco Preferred Shares if all such dividends were declared and paid in full, and on any return of capital in accordance with the sums which would be payable on such return of capital if all sums so payable were paid in full.

Priority over Junior Shares. The Brinco Preferred Shares will be entitled to preference over Junior Shares with respect to payment of accumulated dividends and return of capital but shall not have any further right to participate in profits and assets and may also be given such other preferences over Junior Shares as may be fixed by the directors.

Shares Ranking Equally. The Brinco Preferred Shares of each series will rank on a parity with the Brinco Preferred Shares of every other series with respect to priority in payment of dividends (but only to the extent that and in those cases where a series of Brinco Preferred Shares bears dividends) and in the distribution of assets in the event of the liquidation, dissolution or winding-up.

Creation of Prior Ranking Shares. Subject to the provisions attaching to any series of Brinco Preferred Shares, no class of shares may be created ranking prior to or (unless such shares are additional Brinco Preferred Shares) on a parity with the Brinco Preferred Shares without the approval of the holders of the Brinco Preferred Shares given in a specific manner.

Redemption. Subject to the provisions of The Companies Act (Newfoundland) and to the provisions attaching to any series of Brinco Preferred Shares, the Brinco Preferred Shares may be redeemed by Brinco, in whole or at any time or in part from time to time, on not less than 30 days' notice at a redemption price equal to the par value thereof together with such premium (if any) as may be applicable to any particular series of Brinco Preferred Shares, and all accrued and unpaid preferential dividends (if any) to the date fixed for redemption. In case a part only of the Brinco Preferred Shares of any series is to be redeemed, the shares to be redeemed shall be selected by lot in such manner as the directors may determine or, if the directors so determine, may be redeemed pro rata disregarding fractions.

Modification and Consent. The sanction of the holders of the Brinco Preferred Shares as to any change of class provisions or any change adversely affecting the rights or privileges of the Brinco Preferred Shares may be given by resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Brinco Preferred Shares represented and voting at a meeting of such holders duly called for such purposes and held in a specified manner.

Brinco Preferred Shares Series A Series Provisions

The Brinco Preferred Shares Series A will, in addition to the terms and conditions relating to the Brinco Preferred Shares as a class, have attached thereto as a series the terms and conditions which are summarized below.

Dividends. The holders of Brinco Preferred Shares Series A will be entitled to receive, in priority to the Brinco Common Shares and any shares ranking junior to the Brinco Preferred Shares Series A, fixed cumulative preferential cash dividends, as and when declared by the directors, at the rate of 7% per annum on the par value thereof, to accrue from the Amalgamation and to be payable quarterly on the last day of March, June, September and December in each year. The first of such dividends shall, if declared, be payable on December 31, 1979.

Conversion Privilege. The Brinco Preferred Shares Series A will be convertible at any time up to the close of business on the Retraction Date (being the fifth anniversary of the Amalgamation and more fully defined on page A-12 in Part B of the Appendix) or, in the case of shares called for redemption prior thereto, on the last business day prior to the date for which Brinco Preferred Shares Series A are called for redemption, into fully paid and non-assessable Brinco Common Shares on the basis of 0.55 of a Brinco Common Share for each Brinco Preferred Share Series A.

The conversion basis shall be subject to adjustment in certain events, including:

(i) the distribution of Brinco Common Shares to the holders of Brinco Common Shares by way of stock dividend or otherwise or the subdivision or consolidation of the outstanding

Brinco Common Shares;

(ii) any consolidation, amalgamation or reorganization of Brinco;

(iii) the issuance of options, rights or warrants to holders of Brinco Common Shares entitling such holders to acquire Additional Equity Shares (as defined on page A-5 in Part B of the Appendix) at less than the prevailing Market Price (as defined on page A-6 in Part B of the Appendix) of the Brinco Common Shares;

(iv) the issuance of securities convertible into Brinco Common Shares at a price per share less than the prevailing Market Price of the Brinco Common Shares;

(v) the issuance of Additional Equity Shares at a price per share less than the prevailing Market Price of the Brinco Common Shares;

(vi) the distribution to the holders of Brinco Common Shares of any other shares or of options, rights or warrants (other than those referred to in (iii) above) or of evidences of indebtedness or of assets (excluding cash dividends or distributions); or

(vii) any re-classification or other change in the Brinco Common Shares.

No certificate for a fraction of a Brinco Common Share shall be issued on conversion but in lieu thereof Brinco will make a cash payment.

In the event that Brinco intends to fix a record date for any action referred to in items (i) (other than the subdivision of outstanding Brinco Common Shares into a greater number of shares or the consolidation of outstanding Brinco Common Shares into a smaller number of shares), (ii), (iv) or (vi) above, Brinco will give notice thereof to the holders of Brinco Preferred Shares Series A not less than 21 days prior to the applicable record date setting forth such particulars of such event as shall have been determined at the date such notice is given.

No adjustment in the conversion price will be required unless the cumulative effect of such adjustment or adjustments would reduce the conversion price by at least 1%.

Upon conversion of any Brinco Preferred Shares Series A, Brinco shall make no payment or adjustment on account of any accrued and unpaid dividends on the Brinco Preferred Shares Series A or on account of any dividends on the Brinco Common Shares issuable on such conversions.

Retraction Privilege. Brinco shall once, during the 160 day period ending on the Retraction Date (unless all the Brinco Preferred Shares Series A shall have theretofore been converted, redeemed or otherwise retired) invite tenders from all the holders of Brinco Preferred Shares Series A for the redemption of all such shares by Brinco at a price equal to $5.50 per share plus accrued and unpaid cumulative preferential dividends and, subject as hereinafter stated, shall accept all such tenders received by it during a period of at least 90 days from the date such invitation is mailed (which period shall not expire in any event before the 30th day after the Retraction Date) and give written notice to each holder of a Brinco Preferred Share Series A making such a tender reasonably promptly after the receipt of the same that it has been accepted by Brinco and that payment of the redemption price of the Brinco Preferred Shares Series A so tendered will be made upon surrender of the certificates therefor.

Brinco shall only be obliged to redeem Brinco Preferred Shares Series A pursuant to the aforementioned retraction privilege if and so long as such redemption would not be contrary to any applicable law. If such redemption of all or any portion of the Brinco Preferred Shares Series A would be contrary to applicable law, Brinco shall only be obliged to redeem to the extent that the moneys applied thereto shall be such amount (rounded to the next lower multiple of $5,000), as would not be contrary to such law. In such case, Brinco shall redeem from each holder that number of whole Brinco Preferred Shares Series A that may be redeemed out of his pro rata share of the total redemption price available as aforesaid and shall issue and deliver to such holder a new share certificate representing Brinco Preferred Shares Series A not redeemed by Brinco.

If Brinco, in its invitation for tenders as aforesaid, gives notice of a maximum number of Brinco Preferred Shares Series A which it then believes it will be permitted to redeem if tendered, or fails to redeem all Brinco Preferred Shares Series A duly tendered in accordance with the aforementioned retraction privilege, or any other retraction privilege as hereinafter described, the holders of the Brinco Preferred Shares Series A shall be entitled to a further retraction privilege for which the date of mailing by Brinco of invitations for tenders shall be such date after the time that Brinco is no longer prevented by provisions of applicable law from redeeming the lesser of (i) the Brinco Preferred Shares Series A then outstanding or (ii) 15,000 Brinco Preferred Shares Series A, as it is reasonably feasible for Brinco to make an invitation for tenders in this regard and the Retraction Date shall be the next succeeding date on which preferential dividends on the Brinco Preferred Shares Series A are payable, which date is not less than 80 days after such invitation date.

Optional Redemption. The Brinco Preferred Shares Series A will not be redeemable on or before the last day of the 30th month from the Amalgamation but will be redeemable thereafter at the option of Brinco but only in the event that the trading price (as defined on page A-14 in Part B of the Appendix) of the Brinco Common Shares on the date on which the notice of redemption is given is not less than 150% of the Equivalent Conversion Price then in effect. Subject to the foregoing and to the provisions described below under the heading "Restrictions on the Payment of Dividends and Retirement of Shares" the Brinco Preferred Shares Series A will be redeemable on not less than 30 days' notice at a redemption price of $5.50 per share plus any accrued and unpaid dividends.

Mandatory Redemption. In the event that the Market Price (as defined on page A-6 in Part B of the Appendix) of the Brinco Preferred Shares Series A calculated as at the last day of any fiscal year of Brinco is less than the par value thereof, Brinco shall redeem, within 30 days of such fiscal year end, pro rata from the holders of Brinco Preferred Shares Series A an amount equal to 5% of the aggregate par value of the Original Outstanding Preferred Shares Series A (as defined on page A-14 in Part B of the Appendix) on payment for each share to be so redeemed of $5.50 plus any accrued and unpaid dividends.

Brinco shall only be obliged to redeem Brinco Preferred Shares Series A under the foregoing provisions if and so long as such redemption would not be contrary to applicable law.

Restoration to Class on Redemption or Conversion. Brinco Preferred Shares Series A which are redeemed or converted will revert to the status of authorized but unissued Brinco Preferred Shares not included in any series.

Restrictions on Payment of Dividends and Retirement of Shares. So long as any of the Brinco Preferred Shares Series A are outstanding, Brinco shall not, without the prior approval of the holders of such shares:

(i) pay any dividend (other than stock dividends payable in shares ranking junior to the Brinco Preferred Shares Series A in all respects) or make any other distribution on the Brinco Common Shares or any other shares ranking junior to the Brinco Preferred Shares Series A,

(ii) retire any Brinco Common Shares or any other shares ranking on a parity with or junior to the Brinco Preferred Shares Series A (except out of the proceeds of an issue of shares ranking junior to the Brinco Preferred Shares Series A), or

(iii) call for redemption, otherwise than pursuant to the Retraction Privilege described under the heading "Retraction Privilege" on page 58 or to the provisions described under the heading "Mandatory Redemption" above, less than all the Brinco Preferred Shares Series A then outstanding,

unless, in each case, all dividends up to and including the dividend payable for the last completed period for which such dividends shall be payable on the Brinco Preferred Shares Series A then outstanding shall have been declared and paid at the date of such action.

Restrictions on Creation and Issue of Equal or Prior Ranking Shares. So long as any of the Brinco Preferred Shares Series A are outstanding, Brinco shall not issue any other Preferred Shares or any share of any other class ranking in any respect prior to or on a parity with the Brinco Preferred Shares Series A unless:

(i) Adjusted Consolidated Net Earnings Available for Dividends (as defined on page A-5 in Part B of the Appendix) for any 12 consecutive months of the 18 calendar months immediately preceding the date of issue of such shares shall have been at least equal to two times the annual dividend requirements on all Brinco Preferred Shares and other shares of Brinco ranking in priority to or on a parity with the Brinco Preferred Shares Series A to be outstanding immediately after such issue; and

(ii) Shareholders' Equity (as defined on page A-6 in Part B of the Appendix), as at a date not more than 180 days prior to such issue, shall be at least equal to one and one-half times the aggregate par value of all Brinco Preferred Shares and other shares of Brinco ranking in priority to or on a parity with the Brinco Preferred Shares Series A to be outstanding immediately after such issue.

In determining "Adjusted Consolidated Net Earnings Available for Dividends" for the purpose of the test set forth above, in certain circumstances there may be included net earnings or net losses (during the relevant period) of property or shares, the cost of which to Brinco is to be paid or reimbursed out of the proceeds of the proposed issue.

Voting Rights. The holders of Brinco Preferred Shares Series A shall be entitled to receive notice of, and to attend and, either in person or by proxy, vote (on the basis of that number of votes for each Brinco Preferred Share Series A equal to the conversion basis then in effect) at all meetings of the shareholders of Brinco other than separate meetings of the holders of shares of another series or class of shares of Brinco.

Election of Directors. Holders of Brinco Preferred Shares Series A shall be entitled, voting separately and exclusively as a class for so long as at least 10% of the Original Outstanding Preferred Shares Series A remain outstanding, to elect two directors of the total number of the directors of Brinco. In respect of the method of the initial election of the two directors of Brinco to represent the holders of Brinco Preferred Shares Series A, reference is made to the heading "The Merged Company — Arrangements with Conuco Management" on page 64.

Modification and Consent. The provisions attaching to the Brinco Preferred Shares Series A may be modified, amended or varied only with the sanction of, and any consent permitted or required to be given by holders thereof may be given by the holders of the Brinco Preferred Shares Series A. Any such sanction or consent to be given by the holders of the Brinco Preferred Shares Series A may be given by the affirmative vote of the holders of not less than 66 2/3% of the Brinco Preferred Shares Series A at a meeting or adjourned meeting of such holders called and held for that purpose in the manner provided for in the provisions attaching to the Brinco Preferred Shares, as a class.

Brinco Preferred Shares Series B Series Provisions

The Brinco Preferred Shares Series B will, in addition to the terms and conditions relating to the Brinco Preferred Shares as a class, have attached thereto as a series the terms and conditions which are summarized below.

Conversion Privilege. The Brinco Preferred Shares Series B will be convertible at any time up to but not after the close of business on the Termination Date (being the first anniversary of the Amalgamation and more fully defined on page A-24 in Part C of the Appendix) into fully paid and non-assessable Brinco Common Shares on the basis of 0.55 of a Brinco Common Share for each Brinco Preferred Share Series B.

No certificate for a fraction of a Brinco Common Share shall be issued on conversion but in lieu thereof Brinco will make a cash payment.

The conversion basis shall be subject to adjustment upon the occurrence of the same events as will give rise to an adjustment in the conversion basis of the Brinco Preferred Shares Series A as described under the heading "Brinco Preferred Shares Series A — Conversion Privilege" on page 57.

In the event that Brinco intends to fix a record date for any action referred to in the second paragraph under the heading "Conversion Privilege" on page 57, Brinco shall give notice thereof to the holders of the Brinco Preferred Shares Series B in the same manner as is specified in the case of the Brinco Preferred Shares Series A.

No adjustment in the conversion price will be required unless the cumulative effect of such adjustment or adjustments would reduce the conversion price by at least 1%.

Upon conversion of any Brinco Preferred Shares Series B Brinco shall make no payment or adjustment on account of any dividends on the Brinco Common Shares issuable on such conversions.

Retraction at Option of Holder and Deemed Conversion. A holder of Brinco Preferred Shares Series B shall be entitled until the close of business on the Termination Date to require Brinco to redeem all or any of the Brinco Preferred Shares Series B registered in his name at a redemption price per share equal to $5.50 on the 30th day after receipt by Brinco from such holder of the share certificate representing the Brinco Preferred Shares Series B which such holder desires to have redeemed.

Brinco shall only be obliged to redeem Brinco Preferred Shares Series B under the foregoing provisions if and so long as such redemption would not be contrary to any applicable law.

In the event a holder of Brinco Preferred Shares Series B does not tender his Brinco Preferred Shares Series B for redemption as aforesaid by the close of business on the Termination Date, or, if having so tendered, it would be contrary to any applicable law for Brinco to redeem his Brinco Preferred Shares Series B so tendered, such Brinco Preferred Shares Series B shall be deemed to have been automatically converted as at such time into Brinco Common Shares on the conversion basis then in effect.

Any Brinco Preferred Shares Series B which are redeemed or converted as provided for above shall be restored to the status of authorized but unissued Brinco Preferred Shares not included in any series of Brinco Preferred Shares.

Restrictions on Creation and Issue of Equal or Prior Ranking Shares. So long as any of the Brinco Preferred Shares Series B are outstanding, Brinco shall not issue any other Brinco Preferred Share or any share of any other class ranking in any respect prior to or on a parity with the Brinco Preferred Shares Series B unless Shareholders' Equity (as defined on page A-19 in Part C of the Appendix) as at a date not more than 180 days prior to such issue, shall be at least equal to one and one-half times the aggregate par value of all Brinco Preferred Shares and other shares of Brinco ranking in priority to or on a parity with the Brinco Preferred Shares Series B to be outstanding immediately after such issue; provided that any of such shares which have been duly called for redemption and for the redemption of which adequate provision has been made assuring that such shares shall be redeemed within 35 days thereafter shall be considered to have been redeemed for the foregoing purposes.

No Dividends. The Brinco Preferred Shares Series B shall not bear dividends.

Voting Rights. The holders of Brinco Preferred Shares Series B shall be entitled to receive notice of, and to attend and, either in person or by proxy, vote (on the basis of that number of votes for each Brinco Preferred Share Series B equal to the conversion basis then in effect) at all meetings of the shareholders of Brinco other than separate meetings of the holders of shares of another series or class of shares of Brinco.

Modification and Consent. The provisions attaching to the Brinco Preferred Shares Series B may be modified, amended or varied only with the sanction of, and any consent permitted or rquired to be given by holders thereof may be given by, the holders of the Brinco Preferred Shares Series B. Any such sanction or consent to be given by the holders of the Brinco Preferred Shares Series B may be given by the affirmative vote of not less than 66 2/3% of the Brinco Preferred Shares Series B at a meeting or adjourned meeting of such holders called and held for that purpose in accordance with the provisions of the Brinco Preferred Shares, as a class.

Brinco Common Shares

The holders of Brinco Common Shares will be entitled to dividends when and as declared by the board of directors of Brinco, subject to the prior rights of the Brinco Preferred Shares Series A. Upon liquidation, dissolution or other general distribution of assets of Brinco, after payment of all debts and liabilities and after all required payments to the holders of Brinco Preferred Shares Series A and Brinco Preferred Shares Series B, the holders of Brinco Common Shares will be entitled to share equally and rateably in the balance of any assets of Brinco.

Each holder of Brinco Common Shares will be entitled to one vote for each share held at all meetings of shareholders of Brinco (other than meetings at which only another class or series of shares is entitled to vote).

Stock Exchange Listings

Brinco Common Shares currently outstanding are listed on the Montreal Stock Exchange and on The Toronto Stock Exchange. Brinco intends to apply to the Alberta Stock Exchange to list the presently outstanding Brinco Common Shares and to apply to each of the Alberta, Toronto and Montreal Stock Exchanges for the listings of the Brinco Preferred Shares Series A and the additional Brinco Common Shares required to effect the Merger and to provide for conversions of the Brinco Preferred Shares Series A and Brinco Preferred Shares Series B.

Transfer Agents and Registrars

The Royal Trust Company at its principal office in each of the cities of St. John's, Montreal, Toronto and Calgary, is the transfer agent and registrar for the Brinco Common Shares. Guaranty Trust Company of Canada, at its principal office in each of the cities of St. John's, Montreal, Toronto and Calgary will be the transfer agent and registrar for the Brinco Preferred Shares Series A and Brinco Preferred Shares Series B.

VI. THE MERGED COMPANY

Pro-Forma Consolidated Capitalization (Unaudited) (1)

	Authorized	Outstanding July 31, 1979	Outstanding July 31, 1979 after giving effect to the Merger
Long-term Debt (2)			
Bank loans		—	$ 9,285,000
Notes payable		—	$ 4,220,000
Other loans		—	$ 2,665,000
Minority Interest in Subsidiary Companies		$ 3,325,000	$ 3,325,000
Capital Stock:			
preferred shares with a par value of $5.50 each issuable in series	10,000,000 shares		
7% cumulative convertible redeemable retractable preferred shares series A	2,250,000 shares	—	$11,819,000 (2,148,928 shares) (3)
convertible retractable preferred shares series B	2,150,000 shares	—	$11,819,000 (2,148,928 shares) (3)
common shares without nominal or par value (4)	35,000,000 shares	$40,994,000 (14,673,518 shares)	$56,305,000 (16,822,446 shares)

NOTES:

(1) This table shows the consolidated capitalization of Brinco and subsidiaries as at July 31, 1979 and the pro-forma consolidated capitalization of the Merged Company as at July 31, 1979 after giving effect to the proposed Merger.

(2) The bank loans are secured by a first floating charge and assignments under Section 82 of the Bank Act of certain oil and gas properties, and bear interest at the prime rate plus one per cent. Although the bank loans are payable on demand, under the agreed terms of repayment no principal payments are due until January 1981.

The notes payable are 5.4% debentures payable August 1, 1982 with interest payable semi-annually. The debentures are secured by a second floating charge on certain oil and gas properties and are subordinate to the bank loans.

The other loans are non-interest bearing advances which Brinco intends to replace with additional long-term bank loans subject to the same conditions as the existing bank loans.

(3) Issued at par value of $5.50 each.

(4) Authorized: 35,000,000 common shares of which 9,973,067 have been deemed by legislation of the Province of Newfoundland to be a separate class of shares designated as Class A Shares.

Issued and fully paid at July 31, 1979	24,646,585
Less held in treasury as Class A shares	9,973,067
Outstanding at July 31, 1979	14,673,518

Directors and Officers

The Merged Company will have a board of 12 directors. The provisions attaching to the Brinco Preferred Shares Series A entitle the holders thereof to elect, as a class, two members of the board of directors of Brinco for so long as at least 10% of such shares originally issued remain outstanding. The board of directors of the Merged Company will consist of the 10 directors of Brinco at the date hereof (listed as directors under the heading "Brinco — Directors and Officers" on page 49) and the following two persons:

Name	Occupation and Present Position	Place of Residence
Clifford Alan Smith	Executive, Director and President, Conuco	Calgary, Alberta
George Howard Plewes	Executive, Director, Conuco	Rancho Mirage, California

In accordance with the provisions of the Merger and Amalgamation Agreement, Messrs. Smith and Plewes will represent the holders of Brinco Preferred Shares Series A on the board of directors of the Merged Company until the next annual meeting of shareholders or until their successors are elected or appointed. It is anticipated that their appointment to the board of directors of Brinco will occur upon the Amalgamation.

The executive officers of the Merged Company will be, in addition to the executive officers of Brinco listed as officers under the heading "Brinco — Directors and Officers" on page 49, the following:

Name	Office
C. Alan Smith	Vice-President, Oil and Gas
Thomas N. Dirks	Manager of Operations, Oil and Gas
James R. Kassube	Manager of Exploration, Oil and Gas

Arrangements with Conuco Management

In order to maintain for the benefit of the Merged Company the existing quality of management of Conuco's oil and gas operations, Brinco has entered into management agreements made as of June 13, 1979 with C.A. Smith Resources Ltd., Sage Holdings Ltd. and Sperry Exploration Ltd., (companies controlled by Mr. C. Alan Smith, Mr. Thomas N. Dirks and Mr. James R. Kassube, respectively, all directors and senior officers of Conuco) providing for the personal services of Messrs. Smith, Dirks and Kassube, respectively. The management agreements provide that Messrs. Smith, Dirks and Kassube will be appointed to the offices of Brinco referred to above. The management fees payable pursuant to such agreements are commensurate with current standards in the oil and gas industry in Canada.

Stock Options

Brinco has entered into agreements with five employees of Conuco who currently hold options to acquire 148,000 unissued Conuco Common Shares pursuant to which such employees have agreed to terminate such options upon the Amalgamation. In consideration of such termination Brinco has agreed to grant options to each such employee to acquire unissued Brinco Shares on the basis of one Brinco Common Share and two Brinco Preferred Shares Series A for every three Conuco Common Shares with respect to which such options have not been exercised prior to the Amalgamation.

Pro-Forma Asset Coverage

Based on the unaudited pro-forma consolidated balance sheet of the Merged Company as at May 31, 1979, pro-forma consolidated net assets of the Merged Company are as follows:

Current assets		$ 47,444,000
Investments		10,482,000
Resource projects		80,011,000
Other assets		1,207,000
		139,144,000
Less: Current liabilities	$ 4,847,000	
Long term debt	15,958,000	
Deferred income taxes	2,755,000	
Minority interest in subsidiary companies	3,337,000	26,897,000
Pro-Forma Consolidated Net Assets		$112,247,000

The above pro-forma consolidated net assets of the Merged Company are equivalent to 4.75 times the aggregate stated value of the 2,148,928 Brinco Preferred Shares Series A and the 2,148,928 Brinco Preferred Shares Series B.

Pro-Forma Dividend Coverage

The maximum annual dividend requirements on the Brinco Preferred Shares Series A will amount to approximately $827,000. While the unaudited pro-forma combined net loss of the Merged Company for the year ended March 31, 1979 was $350,000, the pro-forma consolidated retained earnings as at May 31, 1979 are 39.1 times the annual dividend requirements. The pro-forma consolidated working capital as at May 31, 1979 was $42,597,000 which includes cash and short term investments of $41,272,000.

Auditors

The auditors of the Merged Company will be Peat, Marwick, Mitchell & Co., who are now the auditors of both Brinco and Conuco.

VII. FINANCIAL INFORMATION

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BRINCO LIMITED AND SUBSIDIARIES

AUDITORS' REPORT

To the Directors,
Brinco Limited:

We have examined the consolidated balance sheet of Brinco Limited as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the five years 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 December 31, 1978 and the results of its operations and the changes in its financial position for the five years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Mississauga, Canada
March 1, 1979

"Peat, Marwick, Mitchell & Co."
Chartered Accountants

BRINCO LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
($000's)

	May 31, 1979 (Unaudited)	May 31, 1978 (Unaudited)	December 31, 1978
ASSETS			
Current assets:			
Cash and short-term investments	$43,406	$45,621	$44,514
Accrued interest	1,334	930	1,002
Accounts receivable	824	1,060	580
Supplies and prepaid expenses	119	273	156
Total current assets	45,683	47,884	46,252
Investments:			
Coseka Resources Limited — at equity (note 2)	10,464	9,785	10,079
Other (note 3)	235	165	15
Total investments	10,699	9,950	10,094
Long term advances (note 4)	564	435	572
Fixed assets (note 5)	515	528	512
Expenditures on projects (note 6):			
Abitibi asbestos	13,395	13,217	13,356
Labrador uranium	8,812	6,858	8,171
Other	126	101	122
Total expenditures on projects	22,333	20,176	21,649
	$79,794	$78,973	$79,079
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$ 734	$ 395	$ 620
Bank loan	990	645	875
Total current liabilities	1,724	1,040	1,495
Deferred income taxes	1,436	1,303	1,436
Minority interest in subsidiary company	3,337	3,410	3,374
Shareholders' equity (note 7)	73,297	73,220	72,774
	$79,794	$78,973	$79,079

On behalf of the Board:

"H. R. Snyder", Director

"R. B. Dale-Harris", Director

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

($000's)

	Five Months Ended May 31		Year Ended December 31				
	1979	1978 (Unaudited)	1978	1977	1976	1975	1974
Income:							
Income from short-term investments	$ 1,890	$ 1,438	$ 3,812	$ 3,771	$ 5,181	$ 4,498	$ 7,759
Income from debentures of Coseka Resources Limited (note 2)	—	—	—	179	361	400	248
Equity in net income of Churchill Falls (Labrador) Corporation Limited (note 8)	—	—	—	—	—	—	5,166
	1,890	1,438	3,812	3,950	5,542	4,898	13,173
Expenses:							
Administrative	1,182	637	1,597	2,645	1,788	1,840	4,434
Depreciation and amortization	68	47	120	166	135	109	81
Interest on bank loan	45	20	65	31	11	—	—
Exploration expenditures and other costs related to natural resources — net	558	609	2,466	2,036	2,297	2,942	2,532
Provision for loss in value of investments (note 3)	—	—	150	—	128	897	—
Project expenditures written off	—	—	—	—	284	1,390	435
	1,853	1,313	4,398	4,878	4,643	7,178	7,482
Earnings (loss) before items set out separately below	37	125	(586)	(928)	899	(2,280)	5,691
Income taxes	142	95	185	30	767	172	1,191
	(105)	30	(771)	(958)	132	(2,452)	4,500
Equity in net income of Coseka Resources Limited (note 2)	385	506	799	200	—	—	—
	280	536	28	(758)	132	(2,452)	4,500
Extraordinary items:							
Reduction in income taxes (note 11)	142	44	—	30	257	172	450
Increase in book value of investment in Coseka Resources Limited (note 2)	—	1,576	1,576	—	—	—	—
Gain on sale of shares of Churchill Falls (Labrador) Corporation Limited (note 8)	—	—	—	—	—	—	87,148
	422	2,156	1,604	(728)	389	(2,280)	92,098
Minority interest in loss of subsidiary	37	22	58	47	66	49	56
Net earnings (loss)	459	2,178	1,662	(681)	455	(2,231)	92,154
Retained earnings at beginning of period	31,862	65,600	65,600	66,281	65,826	68,057	5,434
	32,321	67,778	67,262	65,600	66,281	65,826	97,588
Less: Dividend paid	—	—	—	—	—	—	29,531
Transfer of retained earnings to paid up capital (note 7)	—	—	35,400	—	—	—	—
Retained earnings at end of period	$32,321	$67,778	$31,862	$65,600	$66,281	$65,826	$68,057
Earnings per share (note 9)							
Earnings (loss) per share before extraordinary items	2.2¢	3.8¢	.6¢	(4.9¢)	1.4¢	(16.3¢)	19.6¢
Net earnings (loss) per share	3.1¢	14.9¢	11.3¢	(4.7¢)	3.1¢	(15.1¢)	397.3¢

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

($000's)

	Five Months Ended May 31		Year Ended December 31				
	1979	**1978**	**1978**	**1977**	**1976**	**1975**	**1974**
	(Unaudited)						
Source of Funds:							
Earnings (loss) before equity in net income of Coseka Resources Limited, extraordinary items and minority interest in loss of subsidiary	$ (105)	$ 30	$ —	$ —	$ 132	$ (2,452)	$ 4,500
Items not affecting working capital during the period:							
Depreciation and amortization	68	47	—	—	135	109	81
Deferred income taxes	142	95	—	—	767	172	1,191
Provision for loss in value of investments	—	—	—	—	128	897	—
Project expenditures written off	—	—	—	—	284	1,390	435
Other	—	13	—	—	—	—	—
Equity in net income of Churchill Falls (Labrador) Corporation Limited	—	—	—	—	—	—	(5,166)
Funds provided from operations	105	185	—	—	1,446	116	1,041
Net proceeds from sale of shares of Churchill Falls (Labrador) Corporation Limited (note 8)	—	—	—	—	—	—	159,000
Reduction in long term advances	8	3	—	—	—	—	—
Proceeds from sale of investments	—	—	—	39	212	—	—
Proceeds from issue of common shares	64	—	68	—	—	—	1,308
Total funds provided	177	188	68	39	1,658	116	161,349
Use of funds:							
Loss before equity in net income of Coseka Resources Limited, extraordinary items and minority interest in loss of subsidiary	—	—	771	958	—	—	—
Items not affecting working capital during the period:							
Depreciation and amortization	—	—	120	166	—	—	—
Provision for loss in value of investments	—	—	150	—	—	—	—
Loss on disposal of fixed asstes	—	—	—	111	—	—	—
Deferred income taxes	—	—	185	30	—	—	—
Other	—	—	9	5	—	—	—
Funds used in operations	—	—	307	646	—	—	—
Project expenditures:							
Abitibi asbestos	39	43	182	154	519	1,395	1,406
Labrador uranium	641	287	1,600	3,477	3,094	—	—
Other	4	5	22	71	25	245	500
Fixed assets — net	71	58	115	346	166	96	473
Investment in shares and debentures of Coseka Resources Limited	—	—	—	383	15	—	3,500
Investments in common shares of other companies	220	—	—	—	—	6	1,227
Long term advances	—	—	134	438			
Purchase of Brinco common shares (note 7)	—	—	—	—	—	5,890	64,620
Investment in Abitibi Asbestos Mining Company	—	—	—	—	—	—	2,838
Dividend paid	—	—	—	—	—	—	29,531
Total funds used	975	393	2,360	5,515	3,819	7,632	104,095
Increase (decrease) in working capital	(798)	(205)	(2,292)	(5,476)	(2,161)	(7,516)	57,254
Working capital at beginning of period	44,757	47,049	47,049	52,525	54,686	62,202	4,948
Working capital at end of period	$43,959	$46,844	$44,757	$47,049	$52,525	$54,686	$ 62,202

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Information at any date subsequent to December 31, 1978 and for the five months ended May 31, 1979 and 1978 is unaudited)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements have been prepared following accounting principles generally accepted in Canada.

The principal accounting policies of the Company and its subsidiaires are summarized hereunder.

Basis of Consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. The active subsidiaries and the Company's ownership therein are as follows:

	Ownership
British Newfoundland Exploration Limited ("Brinex")	100%
Union Holdings Incorporated	100%
Abitibi Asbestos Mining Company Limited ("Abitibi")	60%

Investments in Other Companies:

Investments in other companies are carried at cost, less amounts written off where appropriate, until such time as the holdings are deemed to enable the Company to exercise significant influence whereupon the equity method of accounting for the investment is adopted.

Exploration and Project Expenditures:

Exploration expenditures and costs related to the investigation of possible investments in natural resources are charged to income as incurred, net of recoveries from joint venture partners. Project expenditures, net of recoveries from partners, are carried forward as assets so long as the projects are considered to be of value. The costs of such projects are written off in the event of abandonment or are subject to depreciation and amortization when the projects are put into operation.

Depreciation and Amortization:

Depreciation of fixed assets and leasehold improvements is provided generally on the straight line basis over the estimated service lives of the assets or terms of the leases. The costs of fixed assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the resulting gain or loss reflected in income or project costs as appropriate.

Income Taxes:

Tax allocation procedures are followed, except that no recognition is given in the accounts to the possible future tax reduction which may be realized through the deduction in determining taxable income in future years of unclaimed amounts of depreciation, exploration and preproduction expenditures and losses available for carryforward. The reduction in income taxes resulting from the application of such unclaimed deductions and losses carried forward is reflected as an extraordinary item in the years in which the tax reduction is realized.

Foreign Exchange:

Current assets and liabilities arising in currencies other than Canadian dollars are translated at exchange rates in effect at balance sheet dates; all other assets, liabilities, revenues and expenses are translated at rates in effect at dates of transactions. Any gain or loss on exchange resulting from conversion or translation of foreign currency balances is reflected in the consolidated statement of earnings.

2. **INVESTMENT IN COSEKA RESOURCES LIMITED ("COSEKA"):**

During 1973 the Company entered into an agreement with Coseka for the purchase of 727,273 common shares of Coseka and 8% convertible debentures Series "A" and Series "B". During 1976 the Company converted the series "A" debenture into 545,455 common shares of Coseka at $2.75 per share.

In 1977, 126,254 shares were purchased at $2.75 each and the Company converted the Series "B" debenture into 1,166,667 common shares of Coseka at $3.00 per share thereby increasing its interest to more than 20.0% whereupon the equity method of accounting for the investment was adopted. The excess of cost of shares over equity in net assets of Coseka of $1,763,000 is being amortized over a forty-year period by charges against the Company's share of Coseka's net income. The amortization amounted to $20,000 to May 31, 1979, $20,000 to May 31, 1978 and $44,000 to December 31, 1978.

In February 1978, Coseka issued additional common shares to acquire a 100% interest in Taiga Resources Limited. As a result, the book value of Brinco's share of the consolidated net assets of Coseka increased by $1,576,000 and this increase has been included in earnings as an extraordinary item.

The Company has the right until 1982 to participate in any equity financing by Coseka.

3. **OTHER INVESTMENTS:**

	May 31, 1979	May 31, 1978	December 31, 1978
Investments, at cost	$514,000	$294,000	$294,000
Provision for loss in value	279,000	129,000	279,000
	$235,000	$165,000	$ 15,000
Quoted market value	$222,000	$ 13,000	$ 18,000

In 1975 the Company did not exercise certain options and rights in connection with certain of its investments and as a result, these investments were written down to estimated realizable value, based on the then prevailing quoted market price.

4. **LONG TERM ADVANCES:**

The advances are employee housing assistance loans including amounts due from officers amounting to $364,000 at May 1979, $156,000 at May 1978 and $299,000 at December 1978.

5. **FIXED ASSETS:**

	May 31, 1979	May 31, 1978	December 31, 1978
Buildings and equipment, at cost	$1,010,000	$ 996,000	$ 972,000
Leasehold improvements, at cost	491,000	422,000	450,000
	1,501,000	1,418,000	1,422,000
Accumulated depreciation and amortization	990,000	894,000	914,000
	511,000	524,000	508,000
Land, at cost	4,000	4,000	4,000
	$ 515,000	$ 528,000	$ 512,000

6. **EXPENDITURES ON PROJECTS:**

Abitibi Asbestos

Under the terms of an agreement entered into with Abitibi in 1972 and amended in 1973, the Company purchased 800,000 shares of Abitibi for $500,000 in cash and a commitment to spend $1,500,000 on the construction of a pilot plant and related preproduction studies on the asbestos properties of Abitibi. The agreement, as amended, provided for conversion of expenditures by the Company in excess of the $1,500,000 into additional shares of Abitibi on the basis of one share for each $2.50 of such excess, or, under certain conditions, reimbursement in cash. By September 1974, through the conversion of such expenditures and direct purchases of common shares, the Company had increased its investment in Abitibi to 50.2% of the outstanding share capital and the accounts of Abitibi were consolidated with those of the Company as of that date. The purchase method was used in accounting for the business combination and the excess of cost of shares over equity in net assets acquired has been attributed to the Abitibi asbestos project. The agreement referred to above expired in 1976.

Since that time, discussions have continued between Abitibi, the Province of Quebec and a major asbestos producer concerning their participation in the development of the asbestos deposit. Satisfactory commercial arrangements leading to such development and recovery of the project costs are dependent upon capital financing arrangements, asbestos market conditions, environmental considerations and general economic conditions.

Labrador Uranium

The expenditures on the Labrador Uranium project are net of recoveries from a partner.

In August 1979 Brinco and Brinex entered into an agreement in principle with Edison Development Canada Inc. ("Edison") and Edison's parent company, Commonwealth Edison Company of Chicago ("CE"), whereby Edison will arrange financing of mine and mill construction at the Kitts and Michelin uranium deposits and CE will purchase up to 18,000,000 pounds of uranium.

Brinex has exercised an option to acquire the 40% interest of Urangesellschaft Canada Limited ("UG Canada") in the joint venture covering portions of Brinex's concession areas in Labrador, which include the Kitts and Michelin uranium deposits, and upon receipt of required approvals by governments and other regulatory authorities will transfer this 40% interest to Edison. Pending receipt of such approvals Brinex has entered into a trust agreement with SBC Financial Limited ("SBC"), a subsidiary of Swiss Bank Corporation, under which SBC has agreed to advance $10,100,000 to acquire and hold UG Canada's 40% interest. SBC is providing the funds at the prime rate charged from time to time by The Royal Bank of Canada.

Should approval for the transfer of UG Canada's interest to Edison not be forthcoming and should Brinex be unable to make other arrangements then Brinex will purchase UG Canada's interest.

7. **SHAREHOLDERS' EQUITY**

	May 31, 1979	May 31, 1978	December 31, 1978
Capital stock	$111,486,000	$ 75,952,000	$111,422,000
Retained earnings	32,321,000	67,778,000	31,862,000
	143,807,000	143,730,000	143,284,000
Less cost of common shares purchased pursuant to the 1974 tender offer to shareholders	70,510,000	70,510,000	70,510,000
	$ 73,297,000	$ 73,220,000	$ 72,774,000

Common shares, without nominal or par value, authorized, issued and outstanding were:

	May 31, 1979	May 31, 1978	December 31, 1978
Authorized	35,000,000	35,000,000	35,000,000
Issued and fully paid	24,642,585	24,609,485	24,626,585
Less held in Treasury as Class A shares	9,973,067	9,973,067	9,973,067
	14,669,518	14,636,418	14,653,518

Common shares were issued under stock option plans during the five years ended December 31, 1978 and the five months ended May 31, 1979 as follows:

	Number of common shares	Amount Received
Year ended December 31, 1974	302,674	$1,308,000
Year ended December 31, 1978	17,100	68,000
Five months ended May 31, 1979	16,000	64,000
	335,774	$1,440,000

During 1978, the 9,973,067 shares purchased pursuant to the 1974 tender offer to shareholders and held in treasury were deemed by legislation to be a separate class of shares designated as Class A shares. While these shares are held by or on behalf of Brinco Limited, no holder thereof is entitled to receive any payment or other distribution made in respect of the common shares of the Company. However, upon the sale of such Class A shares, they revert to their former status as common shares.

To preserve the capital nature of its 1971 Capital Surplus on Hand (as that term is presently defined in the Income Tax Act of Canada) the Company has transferred $35,400,000, representing almost all of its 1971 Capital Surplus on Hand, from retained earnings to the paid-up capital attributable to the Company's issued common shares.

Under the Company's 1975 stock option plan, 200,000 common shares have been set aside for issuance. At December 31, 1978, options were outstanding on 94,500 shares (including 73,500 to officers) at $4 and $7 per share exercisable until September 1, 1981 and August 31, 1983 respectively and 88,400 shares remained available for issue.

At May 31, 1979, options were outstanding on 152,000 shares (including 112,500 to officers) at prices ranging from $4.00 to $7.00 per share exercisable on certain dates until September 1, 1981 and February 26, 1984 and 14,900 shares remained available for issue.

8. **CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED ("CHURCHILL FALLS"):**

On June 27, 1974, the Company sold to the Government of Newfoundland its interest in the share capital of Churchill Falls and Gull Island Power Company Limited together with its other Labrador water power rights and information and studies related thereto for $159 million cash after costs related to the sale. The Company recorded as income its equity in the net income of Churchill Falls for the period up to the date of sale. The sale resulted in a gain of $87,148,000.

9. **EARNINGS (LOSS) PER SHARE:**

The calculation of net earnings (loss) per share has been made using the weighted average number of common shares outstanding, less shares held in treasury, during the respective years. There would be no material dilution of net earnings per share if the outstanding options were exercised.

10. **COMMITMENTS:**

In 1953, the Government of Newfoundland and the Company entered into an agreement (the "Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay the Government of Newfoundland an annual rental equal to 8% of the Consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies resulting from the operations of the concessions and rights retained under the Principal Agreement.

The Company leases office accommodation which requires annual rental payments of $177,000 to 1982 and $195,000 to 1987.

11. **INCOME TAXES:**

For income tax purposes, the Company and its subsidiaries claim as deductions, depreciation and exploration and development expenditures sufficient to offset income which would otherwise be taxable. As at December 31, 1978 depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by $15,400,000. Also, the Company and its subsidiaries have unclaimed earned depletion allowances of $10,200,000 which are available for offset against future resource profits.

In addition, the Company and its subsidiaries have business losses of approximately $2,200,000 (of which $1,400,000 expire by 1980) and capital losses of approximately $2,000,000 carried forward for income tax purposes.

For the five months ended May 31, 1979 there were no material changes to the Company's balance of unclaimed tax allowances as reported at December 31, 1978.

12. **MERGER AND AMALGAMATION AGREEMENT:**

On May 2, 1979, the Company reached agreement with Conuco Limited and certain of its affiliated companies whereby the companies would be merged. To give effect to the terms of the proposed merger Brinco will:

(a) request shareholder approval for the creation of a class of 10,000,000 preferred shares with a par value of $5.50 each, issuable in series;

(b) issue the following shares for every three outstanding common or preferred shares of Conuco Limited:

(i) one Series A 7% convertible redeemable retractable voting preferred share,

(ii) one Series B convertible retractable voting preferred share, and

(iii) one common share.

The proposed merger is conditional upon approval by the shareholders of each of the merging companies and certain regulatory authorities.

CONUCO LIMITED

AUDITORS' REPORT TO THE DIRECTORS

We have examined the consolidated balance sheet of Conuco Limited as at March 31, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the two years 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, the accompanying consolidated financial statements present fairly the financial position of the company as at March 31, 1979 and the results of its operations and the changes in its financial position for the two years then ended in accordance with generally accepted accounting principles which, except for the change in the method of accounting for certain general and administrative costs for the year ended March 31, 1979 as described in Note 1 to the consolidated financial statements, have been applied on a consistent basis.

Calgary, Canada
June 1, 1979

"Peat, Marwick, Mitchell & Co."
Chartered Accountants

AUDITORS' REPORT TO THE DIRECTORS OF CONUCO LIMITED

We have examined the consolidated statements of earnings and retained earnings and changes in financial position of Conuco Limited for the three years ended March 31, 1977. 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 results of operations and the changes in financial position of the company for the three years ended March 31, 1977 in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas operations as described in note 2, on a consistent basis.

Our reports on the financial statements for the three years ended March 31, 1977 were originally qualified as to the uncertainty of the outcome of pending legal proceedings involving a subsidiary of the company. These legal proceedings have subsequently been settled without loss to the subsidiary in excess of amounts previously provided in the accounts and accordingly the original qualifications have now been removed.

Calgary, Canada
June 6, 1977
(August 17, 1979 as to note 2
and the resolution of legal
proceedings referred to above)

"Thorne, Riddell & Co."
Chartered Accountants

CONUCO LIMITED

CONSOLIDATED BALANCE SHEETS
($000's)

	May 31, 1979 (Unaudited)	March 31, 1979
ASSETS		
Current assets:		
Cash	$ —	$ 2,157
Accounts receivable	3,743	6,479
Inventories	152	152
	3,895	8,788
Oil and gas properties and equipment (Notes 2 and 5)	26,010	26,004
Other assets	128	133
	$30,033	$34,925
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdraft	$ 111	$ —
Accounts payable and accrued liabilities	3,123	8,072
	3,234	8,072
Long-term debt (Note 6)	15,958	16,027
Deferred income taxes (Note 7)	1,319	1,309
Minority interest (Note 8)	1,568	1,568
Shareholders' equity (Note 9)	7,954	7,949
	$30,033	$34,925

On behalf of the Board:

"C. A. Smith", Director

"M. T. Riback", Director

See accompanying notes.

CONUCO LIMITED

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
($000's)

	Two Months Ended May 31, 1979 (Unaudited)	Year Ended March 31, 1979	1978	1977	1976	1975
Revenue:						
Oil and gas sales	$ 503	$1,365	$ 479	$ 256	$ 41	$ 29
Operating and consulting fees	64	228	301	—	—	—
Other revenue	2	237	148	135	146	324
	569	1,830	928	391	187	353
Expenses:						
Production	153	429	103	83	29	17
General and administrative	129	677	356	164	110	108
Interest on long-term debt	217	356	29	39	26	57
	499	1,462	488	286	165	182
Earnings before the following	70	368	440	105	22	171
Depletion	196	580	209	106	18	4
Depreciation	22	79	39	14	2	5
	218	659	248	120	20	9
Earnings (loss) before the following	(148)	(291)	192	(15)	2	162
Income taxes:						
Current	(23)	(98)	(7)	6	8	12
Deferred	11	134	67	(42)	(42)	(24)
	(12)	36	60	(36)	(34)	(12)
Earnings (loss) from continuing operations	(136)	(327)	132	21	36	174
Income (loss) from discontinued operations	—	—	37	(212)	(42)	(37)
Earnings (loss) before extraordinary items	(136)	(327)	169	(191)	(6)	137
Extraordinary items:						
Gain on sale of fixed assets, net of applicable deferred income taxes $67 — 1978, $29 — 1976, and applicable income taxes $69 — 1975	—	—	178	—	204	284
Gain on sale of marketable securities, net of deferred income taxes of $53	—	—	—	422	—	—
Realization of benefits of tax loss carry-forwards	—	—	—	18	8	82
Write down of investment	—	—	—	(7)	—	—
Cancellation of debt	—	—	—	—	—	10
Write off of goodwill	—	—	—	—	—	(137)
	—	—	178	433	212	239
Net earnings (loss)	(136)	(327)	347	242	206	376
Retained earnings at beginning of period	722	1,199	852	610	404	28
	586	872	1,199	852	610	404
Less: Dividends on 4% cumulative preferred shares	31	128	—	—	—	—
Expenses relating to capital reorganization	12	22	—	—	—	—
Retained earnings at end of period	$ 543	$ 722	$1,199	$ 852	$ 610	$ 404
Earnings per share (Note 10)						
Earnings (loss) per share before extraordinary items	$ (0.02)	$ (0.09)	$ 0.03	$ (0.04)	$ 0.00	$ 0.03
Net earnings (loss) per share	$ (0.02)	$ (0.09)	$ 0.07	$ 0.05	$ 0.05	$ 0.08

See accompanying notes.

CONUCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

($000's)

	Two Months Ended May 31,	Year ended March 31,				
	1979	1979	1978	1977	1976	1975
	(Unaudited)					
Source of funds:						
From operations:						
Continuing operations	$ 93	$ 316	$ 472	$ 119	$ 24	$ 174
Discontinued operations	—	—	78	(28)	180	164
Funds from operations	93	316	550	91	204	338
Proceeds on disposal of oil and gas properties	24	629	68	—	—	—
Issue of common shares	184	540	764	—	—	2
Issue of long-term debt	930	5,899	—	—	—	115
Contribution by shareholders (Note 3)	—	652	—	—	—	—
Proceeds on disposal of other assets	—	216	—	—	—	—
Other	5	27	33	—	13	—
Proceeds on disposal of industrial division	—	—	697	—	—	—
Issue of 4% cumulative preferred shares	—	—	3,300	—	—	—
Gain on sale of marketable securities	—	—	—	475	—	—
Sale of assets	—	—	—	—	530	1,434
	1,236	8,279	5,412	566	747	1,889
Application of funds:						
Purchase of oil and gas properties and equipment	248	3,406	1,754	923	448	105
Purchase of subsidiary companies — net of working capital (Note 3)						
Jasper Oils Ltd.	—	—	3,241	—	—	—
Exalta Petroleums Ltd.	—	147	—	—	—	—
Republic Resources Limited	—	2,710	—	—	—	—
Dividends on 4% cumulative preferred shares	31	128	—	—	—	—
Expenses relating to capital reorganization	12	22	—	—	—	—
Reduction of long-term debt	1,000	1,939	50	60	144	495
Other	—	—	—	283	79	120
Purchase of investment	—	—	—	—	—	150
	1,291	8,352	5,045	1,266	671	870
Increase (decrease) in working capital	(55)	(73)	367	(700)	76	1,019
Working capital, beginning of period	716	789	422	1,122	1,046	27
Working capital, end of period	$ 661	$ 716	$ 789	$ 422	$1,122	$1,046

See accompanying notes.

CONUCO LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at any date subsequent to March 31, 1979 and for the two months ended May 31, 1979 is unaudited)

1. **SIGNIFICANT ACCOUNTING POLICIES:**

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All subsidiaries are wholly owned, except Exalta Petroleums Ltd. in which the Company holds 100% of the common shares and none of the preferred shares. The preferred shares are presented as minority interest.

Oil and gas operations:

The Company follows the full cost method of accounting for oil and gas operations wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. All such costs, and costs of production and related equipment, are amortized on the composite unit-of-production method, based on estimated proven reserves.

Effective April 1, 1978, the Company adopted the policy of capitalizing general and administrative costs related to exploration activities. This resulted in a decrease in general and administrative expenses for the year ended March 31, 1979 of $88,000 and a decrease in the net loss of $50,000 ($0.01 per share).

Substantially all of the exploration and production activities of the Company are conducted jointly with others and accordingly the accounts reflect only the proportionate interest of the Company.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

Other assets:

Other assets are carried at cost less amount written-off.

Foreign currency translation:

The accounts of foreign subsidiaries have been translated to Canadian dollars using the current-noncurrent method and the resulting gain, which is not material, has been deferred.

2. **CHANGE IN ACCOUNTING FOR OIL AND GAS OPERATIONS:**

During the year ended March 31, 1978, the Company retroactively adopted the following change in method of accounting for its oil and gas operations:

a. Exploration costs related to unsuccessful areas, previously written off to earnings, are now capitalized and amortized in the manner described in Note 1.

b. Depreciation of production and related equipment, previously calculated by the diminishing balance method, is now being calculated by the composite unit-of-production method as is described in Note 1.

These changes in accounting policies have been retroactively adopted and have resulted in a net increase in oil and gas properties and equipment of $368,000 — March 31, 1977, $90,000 — March 31, 1976, $86,000 — March 31, 1975 and an increase in deferred income tax of $176,000 — March 31, 1977, $43,000 — March 31, 1976, $41,000 — March 31, 1975. Retained earnings increased by $192,000 — March 31, 1977, $47,000 — March 31, 1976, $45,000 — March 31, 1975.

3. **ACQUISITION OF SUBSIDIARY COMPANIES:**

Effective October 31, 1977, the Company acquired all of the outstanding shares of Jasper Oils Ltd. in exchange for 942,857 of its preferred shares having a par value of $3,300,000. Details of the acquisition, which has been accounted for by the purchase method, are as follows:

Net book value oil and gas properties and equipment	$1,886,000
Deferred income taxes	62,000
	1,824,000
Working capital	122,000
	1,946,000
Excess of purchase price over book value of net assets acquired; allocated to oil and gas properties	1,354,000
Total cost of investment	$3,300,000
Represented by:	
Working capital	$ 122,000
Oil and gas properties	3,240,000
	3,362,000
Deferred income taxes	62,000
	$3,300,000

Effective October 31, 1978, the Company acquired for a cash consideration of $2,573,000, 50% of the outstanding shares of Republic Resources Limited. On the same date Exalta Petroleums Ltd. acquired the other 50% of the outstanding shares of Republic Resources Limited for a cash consideration of $2,432,000 and 50,000 common shares of Conuco Limited valued at $250,000. At that date Exalta Petroleums Ltd. was the parent company of Conuco Limited.

Effective December 31, 1978, the Company, under Section 85.1 of the Income Tax Act, acquired all of the outstanding common shares of Exalta Petroleums Ltd. in exchange for 2 common shares. The value of the common shares of Exalta Petroleums Ltd. has been determined by the Board of Directors to be $652,000 and accordingly, $652,000 has been credited to contributed surplus.

Details of these acquisitions, accounted for by the purchase method, are as follows:

	Exalta Petroleums Ltd.	Republic Resources Limited
Book value of assets	$ 8,917,000	$3,077,000
Book value of liabilities	11,382,000	2,608,000
	(2,465,000)	469,000
Deduct minority interest in preferred shares	1,568,000	—
	(4,033,000)	469,000
Excess of purchase price over net book value of net assets acquired; allocated to oil and gas properties	4,685,000	2,104,000
Purchase price	$ 652,000	$2,573,000
Represented by:		
Working capital (deficiency)	$ 505,000	$ (137,000)
Oil and gas properties and equipment	12,044,000	5,168,000
Other assets	35,000	11,000
	12,584,000	5,042,000
Long-term debt	(9,629,000)	(2,439,000)
Deferred income taxes	(735,000)	(30,000)
Minority interest in preferred shares	(1,568,000)	—
	$ 652,000	$2,573,000

4. **DISCONTINUED OPERATIONS:**

During the year ended March 31, 1975 the Company sold its equipment rental and real estate rental divisions and ceased operations in its structural steel division. Effective September 30, 1977, the Company sold its investments in certain subsidiary companies comprising its industrial division.

The operating results of these divisions have been shown separately in the consolidated statements of earnings under the heading "Income (loss) from discontinued operations".

5. **OIL AND GAS PROPERTIES AND EQUIPMENT:**

	May 31, 1979			March 31, 1979
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Net Book Value
Oil and gas properties	$25,210,000	$1,716,000	$23,494,000	$23,466,000
Production equipment	2,739,000	249,000	2,490,000	2,510,000
Other equipment	49,000	23,000	26,000	28,000
	$27,998,000	$1,988,000	$26,010,000	$26,004,000

6. **LONG TERM DEBT:**

	May 31 1979	March 31 1979
Bank loans	$ 9,256,000	$10,807,000
5.4% debentures payable August 1, 1982; interest payable semi-annually	4,220,000	4,220,000
Non-interest bearing notes due May 1, 1979	—	1,000,000
Advances — non-interest bearing	2,482,000	—
	$15,958,000	$16,027,000

The bank loans are secured by a first floating charge and assignments under Section 82 of the Bank Act of certain oil and gas properties, and bear interest at the bank prime rate plus one percent. Although the bank loans are payable on demand, under the agreed terms of repayment no principal payments are due until January, 1981.

The 5.4% debentures are secured by a second floating charge on certain oil and gas properties and are subordinate to the bank loans.

During the two month period ending May 31, 1979, the Company refinanced the non-interest bearing notes by additional long-term bank loans subject to the same conditions as the existing bank loans. Accordingly these notes at March 31, 1979 have been classified as long-term.

Subsequent to May 31, 1979 the Company intends to replace the advances with additional long-term bank loans subject to the same conditions as the existing bank loans. The appropriate line of credit has been arranged with the bank and accordingly these advances have been classified as long-term.

7. **DEFERRED INCOME TAXES:**

The accompanying consolidated statement of earnings for the year ended March 31, 1979 and the two months ended May 31, 1979 reflects a provision for deferred income taxes notwithstanding a pre-tax loss. This results primarily from depletion, which is not deductible for income tax purposes, provided on the excess of the purchase prices of subsidiaries acquired over their underlying net book values at dates of acquisition. These excesses have been allocated to oil and gas properties.

8. **MINORITY INTEREST:**

The minority interest represents 1,568,185, 4% Class "A" cumulative redeemable preferred shares with a nominal or par value of $1 per share, issued by a subsidiary company. Dividends are payable annually.

9. **SHAREHOLDERS' EQUITY:**

	May 31 1979	March 31 1979
Share capital:		
4% cumulative redeemable convertible preferred shares with a par value of $3.50 per share Authorized 1,000,000 shares; issued 891,157 (March 31, 1979 — 901,657)	$3,119,000	$3,156,000
Common shares without nominal or par value. Authorized 7,000,000 shares; issued 5,596,227 (March 31, 1979 — 5,467,727)	3,640,000	3,419,000
Contributed surplus (Note 3)	652,000	652,000
Retained earnings	543,000	722,000
	$7,954,000	$7,949,000

During the year ended March 31, 1978, the authorized capital of the Company was increased by the creation of one million 4% cumulative redeemable convertible preferred shares with a nominal or par value of $3.50 per share. The preferred shares are redeemable at par plus dividends as follows:

1. At the option of the Company after the second anniversary of the date of issue upon satisfaction of certain conditions.
2. At the option of the shareholders in March of each year.

The preferred shares are convertible into common shares at a rate of one common share for each preferred share during the first three years from the date of issue and at reduced rates thereafter. The conversion privilege expires on the eighth anniversary of the date of issue. 942,857 of these shares were subsequently issued in connection with the acquisition of a subsidiary company (see Note 3). During the year ended March 31, 1979 — 41,200 and during the two month period ended May 31, 1979 — 10,500 preferred shares were converted to common shares.

On October 7, 1977, an agreement was ratified between various working interest participants, including Exalta Petroleums Ltd. as farmor, and the Company and a third party as farmee whereby the third party is committed to expend an aggregate of $5,000,000 in exploration and development. All wells drilled and all production obtained will be owned as follows:

Farmor	50.0%
Conuco Limited	12.5%
Third party	37.5%

The expenditures for income tax purposes will be retained by the third party. As consideration for its interest earned in the properties, the Company has agreed to issue to the third party 800,000 common shares at a rate of one share for each $6.25 of the monies so expended. As at May 31, 1979 all shares had been issued under this agreement.

Details of the common share transactions for the five years ended March 31, 1979 and the two months ended May 31, 1979 are as follows:

	Shares	$
Employee stock options exercised:		
Year ended March 31, 1975	4,000	$ 2,000
Year ended March 31, 1978	130,000	52,000
Year ended March 31, 1979	122,000	186,000
Issued under the drilling agreement:		
Year ended March 31, 1978	455,400	712,000
Year ended March 31, 1979	226,600	354,000
Two months ended May 31, 1979	118,000	184,000
Preferred shares converted:		
Year ended March 31, 1979	41,200	144,000
Two months ended May 31, 1979	10,500	37,000
Issued to acquire Exalta Petroleums Ltd. (Note 3)	2	—
	1,107,702	$1,671,000

As at May 31, 1979, 1,039,157 common shares were reserved as follows:

(i) The 891,157 preferred shares are convertible into common shares at a rate of one common share for each preferred share during the first three years from October 31, 1977 and at reduced rates thereafter. The conversion privilege expires on the eighth anniversary of the date of issue.

(ii) The Company has reserved 148,000 common shares for employee stock option agreements. These options become exercisable at varying times at prices ranging from $1.50 to $4.61 per share, and expire on termination of employment.

10. **EARNINGS (LOSS) PER SHARE:**

Earnings (loss) per share have been calculated using the weighted average method. Neither the conversion of preferred shares to common shares nor the exercise of employee stock options would have a dilutive effect on earnings (loss) per share.

11. **MERGER AND AMALGAMATION AGREEMENT:**

On May 2, 1979 the Company and certain of its affiliated companies reached an agreement in principle with Brinco Limited whereby the companies would be merged. This transaction would result in each shareholder of the Company receiving for three common or preferred shares of the Company, the following package of securities of Brinco Limited:

(i) one 7% cumulative convertible redeemable retractable preferred share Series A with a par value of $5.50 per share;

(ii) one convertible retractable preferred share Series B with a par value of $5.50 per share; and

(iii) one common share without nominal or par value.

The completion of this transaction is conditional on the approval of the shareholders of the merging companies and certain regulatory authorities.

CABALLERO EXPLORATION LTD.

ACCOUNTANTS' COMMENTS

We have prepared the accompanying balance sheet as at May 31, 1979 from the records of Caballero Exploration Ltd. and from other information supplied to us by the company. In order to prepare this balance sheet we made a review, consisting primarily of enquiry, comparison and discussion, of such information. However, in accordance with the terms of our engagement we have not performed an audit and consequently do not express an opinion on this balance sheet.

Generally accepted accounting principles require that the financial statements of this company be prepared on a consolidated basis because consolidated financial statements recognize that, even though the company and its subsidiary are separate legal entities, the companies together constitute a single economic entity. As more fully described in note 1 to the financial statements, the accompanying financial statements are not prepared on a consolidated basis.

Calgary, Canada
August 17, 1979

"Peat, Marwick, Mitchell & Co."
Chartered Accountants

CABALLERO EXPLORATION LTD.

Balance Sheet
May 31, 1979

(Unaudited)

ASSETS

Investment in share of Conuco Limited		$ 5
Investment in shares of 91639 Canada Limited		3
Incorporation costs		260
		$268

LIABILITIES

Due to C. A. Smith Resources Ltd.		$260
Due to associated company		619
Shareholders' equity:		
Share capital:		
Common shares without nominal or par value, authorized 20,000 shares, issued 6 shares	$311	
Deficit	(922)	(611)
		$268

On behalf of the Board:

"James R. Kassube", Director

"Thomas N. Dirks", Director

Notes to Balance Sheet
May 31, 1979

1. **SIGNIFICANT ACCOUNTING POLICIES:**

Investment in subsidiary company:

The Canadian Institute of Chartered Accountants has recommended that financial statements prepared for issuance to shareholders should be prepared on a consolidated basis except in the rare circumstances where this is not the more informative presentation. These financial statements, although they will be laid before the annual meeting of the shareholders, (a) have not been prepared on a consolidated basis because copies of the financial statements of the subsidiary are available to all shareholders and the shareholders have agreed that they do not require consolidated financial statements and (b) do not purport to present in accordance with generally accepted accounting principles the company's financial position, results of operations and changes in the financial position.

The company's investment in its subsidiary company is accounted for in the accompanying financial statements by the cost method under which such investment is carried at the respective costs thereof and the net earnings of the subsidiary company are reflected in the determination of the net earnings of the company only to the extent of dividends received from the subsidiary.

In all other respects, these financial statements are in accordance with generally accepted accounting principles.

2. **MERGER AND AMALGAMATION AGREEMENT:**

On May 2, 1979, the company, three of its affiliated companies, namely Conuco Limited, 91639 Canada Limited (now Canada 91639 Limited) and Exalta Petroleums Ltd., reached an agreement in principle with Brinco Limited whereby all such companies will be merged. As part of this transaction the company will enter into a statutory amalgamation, under the laws of the Province of Alberta, with its three affiliates. The completion of this transaction is conditional on the approval of the shareholders of the merging companies and certain regulatory authorities.

3. **SUBSEQUENT EVENT:**

On August 13, 1979 the company disposed of its share of Conuco Limited.

91639 CANADA LIMITED

ACCOUNTANTS' COMMENTS

We have prepared the accompanying balance sheet as at May 31, 1979 from the records of 91639 Canada Limited and from other information supplied to us by the company. In order to prepare this balance sheet we made a review consisting primarily of enquiry, comparison and discussion, of such information. However, in accordance with the terms of our engagement we have not performed an audit and consequently do not express an opinion on this balance sheet.

Generally accepted accounting principles require that the financial statements of this company be prepared on a consolidated basis because consolidated financial statements recognize that, even though the company and its subsidiary are separate legal entities, the companies together constitute a single economic entity. As more fully described in note 1 to the financial statements, the accompanying financial statements are not prepared on a consolidated basis.

Calgary, Canada
August 17, 1979

"Peat, Marwick, Mitchell & Co."
Chartered Accountants

91639 CANADA LIMITED

Balance Sheet
May 31, 1979

(Unaudited)

ASSETS

Investment in Conuco Limited (Note 3)	$3,871,366

SHAREHOLDERS' EQUITY

Capital stock:	
Preferred redeemable Series "A" shares without nominal or par value.	
Authorized 1,000 shares;	
Issued and redeemed 1 share	$ —
Common shares without nominal or par value.	
Authorized an unlimited amount;	
Issued 4 shares	4
Less subscriptions receivable	(4)
Contributed surplus (Note 3)	3,871,366
	$3,871,366

On behalf of the Board:

"James R. Kassube", Director

"Thomas N. Dirks", Director

Notes to Balance Sheet
May 31, 1979

1. **SIGNIFICANT ACCOUNTING POLICIES**:

Investment in subsidiary company:

The Canadian Institute of Chartered Accountants has recommended that financial statements prepared for issuance to shareholders should be prepared on a consolidated basis except in the rare circumstances where this is not the more informative presentation. These financial statements, although they will be laid before the annual meeting of the shareholders, (a) have not been prepared on a consolidated basis because copies of the financial statements of the subsidiaries are available to all shareholders and the shareholders have agreed that they do not require consolidated financial statements and (b) do not purport to present in accordance with generally accepted accounting principles the company's financial position, results of operations and changes in the financial position.

The company's investment in its subsidiary company is accounted for in the accompanying financial statements by the cost method under which such investment is carried at the respective cost thereof and the net earnings of the subsidiary company are reflected in the determination of the net earnings of the company only to the extent of dividends received from the subsidiary.

In all other respects, these financial statements are in accordance with generally accepted accounting principles.

2. **INCORPORATION**:

The company was incorporated under the Canada Business Corporations Act on February 2, 1978 as Hierlihy Holdings Limited. By a special resolution, of the shareholders of the company on April 20, 1979, the company changed its name to 91639 Canada Limited. As the company had no operations during the period, statements of income, retained earnings, and changes in financial position have not been included.

3. **INVESTMENT IN CONUCO LIMITED**:

Effective December 31, 1978, the company, under Section 85.1 of the Income Tax Act, purchased all of the common shares of Conuco Limited owned by Exalta Petroleums Ltd. in consideration for the issue of 1 Series "A" redeemable preferred share of the company for $1. The company subsequently redeemed its outstanding Series "A" redeemable preferred shares held by Exalta Petroleums Ltd. for $1.

The carrying value of the investment in Conuco Limited amounted to $3,871,366. This amount has been recorded as the cost of the investment by the company and accordingly the same amount has been credited to contributed surplus due to the same ownership of Exalta Petroleums Ltd. and the company.

4. **MERGER AND AMALGAMATION AGREEMENT:**

On May 2, 1979 the company, three of its affiliated companies, namely Conuco Limited, Caballero Exploration Ltd. and Exalta Petroleums Ltd. reached an agreement in principle with Brinco Limited whereby all such companies will be merged. As part of this transaction the company will enter into a statutory amalgamation, under the laws of the Province of Alberta, with its three affiliates. The completion of this transaction is conditional on the approval of the shareholders of the merging companies and certain regulatory authorities.

5. **SUBSEQUENT EVENT:**

On June 13, 1979, the name of the company was changed to Canada 91639 Limited. For the purposes of the merger (Note 4), on June 14, 1979 the company issued one redeemable non-voting preferred share with a par value of $1.00 to Brinco Limited.

BRINCO LIMITED AND SUBSIDIARIES
PRO-FORMA COMBINED AND
CONSOLIDATED BALANCE SHEET (UNAUDITED)

($000's)

	May 31, 1979		
ASSETS	Pro-Forma Combined (Note 1)	Adjustments (Note 2)	Pro-Forma Consolidated (Note 2)
Current assets:			
Cash and short-term investments	$ 43,290	$ (2,018)	$ 41,272
Accrued interest	1,334	—	1,334
Accounts receivable	4,567	—	4,567
Supplies and prepaid expenses	271	—	271
Total current assets	49,462	(2,018)	47,444
Investments:			
Coseka Resources Limited — at equity	10,464	—	10,464
Other	240	(222)	18
Total investments	10,704	(222)	10,482
Fixed assets	515	—	515
Other assets	692	—	692
Natural resource projects:			
Oil and gas	26,010	31,668	57,678
Abitibi asbestos	13,395	—	13,395
Labrador uranium	8,812	—	8,812
Other	126	—	126
Total projects	48,343	31,668	80,011
	$109,716	$ 29,428	$139,144
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$ 3,857	$ —	$ 3,857
Bank loan	990	—	990
Total current liabilities	4,847	—	4,847
Long-term debt	15,958	—	15,958
Deferred income taxes	2,755	—	2,755
Minority interest in subsidiary companies	4,905	(1,568)	3,337
Shareholders' equity:			
Preferred shares	3,119	20,519	23,638
Common shares	44,616	11,672	56,288
Contributed surplus	652	(652)	—
Retained earnings	32,864	(543)	32,321
	81,251	30,996	112,247
	$109,716	$ 29,428	$139,144

On behalf of the Board:

"H. R. Snyder", Director

"R. B. Dale-Harris", Director

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

PRO-FORMA COMBINED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

($000's)

	Two months ended May 31, 1979 (Note 3)	Year ended March 31, 1979 (Note 3)
Pro-forma combined retained earnings, beginning of period	$32,834	$68,734
Pro-forma combined net earnings (loss) for the period	73	(350)
	32,907	68,384
Transfer of retained earnings to paid up capital	—	(35,400)
Dividends on Conuco 4% cumulative preferred shares	(31)	(128)
Expenses relating to Conuco capital reorganization	(12)	(22)
Pro-forma combined retained earnings, end of period	$32,864	$32,834

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

PRO-FORMA COMBINED STATEMENTS OF EARNINGS (UNAUDITED)

($000's)

	Two months ended May 31, 1979 (Note 3)	Year ended March 31, 1979 (Note 3)
Income:		
Income from short-term investments	$ 758	$4,082
Oil and gas sales	503	1,365
Other income	66	465
	1,327	5,912
Expenses:		
Production	153	429
Exploration expenditures and other costs related to natural resources	235	2,435
Administrative	516	2,686
Interest on indebtedness	236	436
Depletion	196	580
Depreciation and amortization	49	212
Provision for loss in value of investment	—	150
	1,385	6,928
Pro-forma combined loss before items set out separately below	(58)	(1,016)
Income taxes:		
Deferred	98	313
Current	(23)	(98)
	75	215
	(133)	(1,231)
Equity in net income of Coseka Resources Limited	105	806
	(28)	(425)
Extraordinary item:		
Reduction in income taxes	87	8
	59	(417)
Minority interest in loss of subsidiary	14	67
Pro-forma combined net earnings (loss) for the period	$ 73	$ (350)
Pro-forma combined earnings per share (Note 4):		
Pro-forma combined loss per share before extraordinary item	(.9¢)	(7.0¢)
Pro-forma combined net loss per share	(.4¢)	(7.0¢)

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

PRO-FORMA COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)

($000's)

	Two months ended May 31, 1979 (Note 3)	Year ended March 31, 1979 (Note 3)
Source of Funds:		
Combined net loss before equity in net income of Coseka Resources Limited, extraordinary item and minority interest in loss of subsidiary	$ 133	$ 1,231
Items not affecting working capital during the period:		
Depreciation and amortization	49	212
Depletion	196	580
Provision for loss in value of investment	—	150
Deferred income taxes	98	313
Funds provided from operations	210	24
Proceeds from issue of long term debt	930	5,899
Contribution by shareholders	—	652
Proceeds on disposal of oil and gas properties and other assets	17	847
Proceeds from issue of common shares	184	672
Total funds provided	1,341	8,094
Use of Funds:		
Natural resource project expenditures:		
Oil and gas	248	3,406
Labrador uranium	267	1,884
Abitibi asbestos and other	14	198
Purchase of fixed assets	40	103
Investments in common shares of other companies	225	—
Reduction of long term debt	1,001	2,067
Dividends on 4% cumulative preferred shares of Conuco	31	128
Purchase of subsidiaries of Conuco — net of working capital acquired	—	2,858
Total funds used	1,826	10,644
Decrease in working capital	485	2,550
Working capital, beginning of period	45,100	47,650
Working capital, end of period	$44,615	$45,100

See accompanying notes.

BRINCO LIMITED AND SUBSIDIARIES

NOTES TO THE PRO-FORMA COMBINED FINANCIAL STATEMENTS AND TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET (UNAUDITED)

1. The pro-forma combined balance sheet aggregates, without material adjustment, the consolidated balance sheets of Brinco and Conuco as at May 31, 1979.

2. The pro-forma consolidated balance sheet is based on the combined consolidated balance sheet referred to in note 1, adjusted to give effect to the following assumptions and transactions as if they had been consummated on May 31, 1979:
   - (i) the redemption of all the 1,568,185 Exalta Preferred Shares for $1.00 each,
   - (ii) the creation of 10,000,000 Brinco preferred shares with a par value of $5.50 each, issuable in series,
   - (iii) the issue of 2,148,928 common shares and 2,148,928 Series A, 7% cumulative, convertible, redeemable, retractable preferred shares and 2,148,928 Series B convertible, retractable preferred shares,
   - (iv) the valuation of the common shares issued to Conuco shareholders at $7.125 each, being the closing price of Brinco common shares on May 2, 1979 — the last day preceding the announcement of the merger; the valuation of the preferred shares Series A and the preferred shares Series B issued to Conuco shareholders at $5.50 each, being the par value thereof,
   - (v) under the purchase method of accounting, the allocation to oil and gas properties of $31,668,000 being the excess of the purchase consideration over the shareholders' equity of Conuco as shown by its consolidated balance sheet at May 31, 1979, and
   - (vi) the payment of the estimated expenses of the proposed merger of $450,000.

3. The combined consolidated statements of earnings, retained earnings and changes in financial position aggregate, without material adjustment , the consolidated results of operations and changes in the financial position of Brinco and Conuco for the year ended March 31, 1979 and the two months ended May 31, 1979.

   No adjustment has been made to reflect on a pro-forma basis the increased charges to future earnings which will arise as a result of the amortization of $31,668,000 allocated to oil and gas properties (see note 2) or to reflect other additional charges or savings which may arise as a result of the combination of the operations of Brinco and Conuco.

4. The pro-forma combined earnings per common share are based on the assumed weighted average number of Brinco common shares outstanding during each applicable period after giving effect to the exchange of Brinco common shares for Conuco shares on the basis described above and after providing for the dividend requirement of the preferred shares Series A. The fully diluted earnings per common share on a pro-forma basis would not be significantly different from the pro-forma basic earnings per common share.

5. These combined financial statements and pro-forma concolidated balance sheet should be read in conjunction with applicable portions of the notes to the consolidated financial statements of Brinco and Conuco appearing on pages 71 to 74 and 79 to 82 of this Information Booklet.

6. In connection with the merger, reflected in the pro-forma consolidated balance sheet, Brinco intends to furnish certain undertakings to Her Majesty the Queen in Right of Canada details of which are set out under the heading "Approval under the Foreign Investment Review Act" on page 15 of this Information Booklet.

McLEOD YOUNG WEIR LIMITED

Commercial Union Tower, Box 433 Toronto-Dominion Centre, Toronto, Ontario M5K 1M2
Telephone (416) 863-7411 Telex 065-24250

August 21, 1979

To the Holders of Common Shares of Brinco Limited and the Convertible Preferred Shares and Common Shares of Conuco Limited

We have been retained by Brinco Limited ("Brinco") and Conuco Limited ("Conuco") to furnish an opinion from a financial point of view on the proposed merger of the two companies. We have considered both the means of accomplishing this and the appropriate ratio between the shares of Brinco and the shares of Conuco on which the merger is to be based.

We have acted as financial advisor to Brinco in connection with the proposed merger and have made a business valuation of Brinco as of April 30, 1979. We concluded that the value of Brinco's undertaking, property and assets as at that date, expressed as a value per common share, was in the range of $8.25 to $11.50. In preparing our valuation, we relied upon information provided by management of Brinco and public sources, as well as relevant industry and investment data. As an investment firm, we are not qualified to opine on the geological and geophysical data on which Brinco's reserve estimates and production profiles were developed. Accordingly, we accepted the reserve estimates and production profile data on Brinco's mining projects that were made available to us by Brinco. Although we have not undertaken a valuation of Conuco, we have examined the past trading prices of Conuco's common shares as well as the findings of two independent consultants' reports on the reserves of Conuco (a report as of May 31, 1979 by D&S Petroleum Consultants (1974) Ltd. and a report as of March 31, 1979 by McDaniel Consultants (1965) Ltd.).

In arriving at our range of values for the Brinco common shares, we did a separate review of each of the following assets of Brinco:

(1) working capital, long term advances and fixed assets;

(2) 25% interest in Coseka Resources Limited ("Coseka");

(3) 60% interest in the Kitts-Michelin Uranium Project ("Kitts-Michelin");

(4) 60% interest in Abitibi Asbestos Mining Company Limited ("Abitibi Asbestos"); and

(5) other mining exploration programmes.

Working capital, long term advances and fixed assets were valued at the book value figures budgeted by Brinco's management as at December 31, 1979. These figures indicate no material changes from the actual audited figures as at December 31, 1978.

The 25% interest in Coseka was attributed a value in excess of the prevailing market value of the shares of Coseka at the time of our valuation. However the amount attributed to the interest was less than the underlying values derived from reserve evaluations proposed by the management of Coseka and confirmed, according to our understanding, by independent oil and gas engineers.

The valuation of the Kitts-Michelin project was based upon a present worth of estimated future after-tax cash flows. At the time of preparing our valuation, we were aware that Brinco was in the final negotiation stages of a development contract with a user-utility and assumed the development of the reserves would be carried out accordingly. In arriving at our estimated value, we took into account certain key variables such as the extent of recoverable reserves (including the potential development of possible reserves at Michelin and Melody Hill) and annual sales volume of uranium, the selling price of uranium and discount factors on future cash flows of 15% and 20%. The ranges in value arrived at in utilizing the extremes of each of these variables was further refined to take into account certain probability factors relating to each of the variables.

The value of Brinco's 60% interest in Abitibi Asbestos was estimated at a range of values, the lower end of which was calculated on the basis of invested capital at the time of our report while the higher end was determined on the basis of present worth at a 15% discount factor of estimated future after-tax cash flows assuming commercial operations commenced in 1984.

Other mining exploration programmes were valued at the cumulative amount of exploration and development expenditures on projects of current emphasis.

Our valuation of Brinco did not take into account any dilutionary effects resulting from the issue of Brinco shares pursuant to the proposed merger with Conuco nor the addition of the Conuco assets and undertakings. However, based upon the valuations made by two independent oil and gas engineers of Conuco's reserves, it is our opinion that the value per Brinco common share, after giving effect to the proposed merger, would not be significantly adversely affected.

It is our opinion that the proposed merger of Brinco and Conuco is in the best interests of the holders of the common shares of Brinco and of the convertible preferred and common shares of Conuco by virtue of producing a stronger and more diversified continuing organization with greater improved potential for growth in earnings and assets. In our opinion, the proposed plan of merger, which is the result of considerable planning and study by Brinco, Conuco and their professional advisors, is satisfactory and suitable.

It is also our opinion that the proposed securities package being offered by Brinco — namely, one common share of Brinco, one Brinco preferred share Series A and one Brinco preferred share Series B for every three Conuco shares — is fair and equitable to the shareholders of Conuco, based on our valuation of Brinco and the consultants' reports with respect to Conuco's reserves referred to above. In addition, based upon the prevailing market price of the Brinco common shares and our views as to the likely market values for the Brinco preferred shares Series A and the Brinco preferred shares Series B (in each case, their par value), it is our opinion that the market value of the proposed securities package being offered by Brinco, expressed as an amount per Conuco share, exceeds the current market price of Conuco's common shares and compares favourably with the historical market prices of Conuco's common shares.

Although the proposed merger will result in some immediate dilution to the Brinco shareholders, in our opinion this is more than compensated for by a number of factors. These include:

(1) the added diversification of the merged company;

(2) the increased potential for growth in earnings and assets of the merged company in the energy field; and

(3) the opportunity to maximize the tax position of Brinco and its subsidiaries.

Yours very truly,
McLEOD YOUNG WEIR LIMITED

Per: "David W. Kerr"

APPENDIX
BRINCO PREFERRED SHARES CONDITIONS

PART A — BRINCO PREFERRED SHARES CLASS PROVISIONS

The ten million (10,000,000) preferred shares with a par value of $5.50 each (the "Preferred Shares") shall as a class have attached thereto the following terms and conditions (collectively the "Preferred Shares Class Provisions"):

Interpretation

1. (a) The following words and phrases wherever used in these Preferred Shares Class Provisions shall have the following meanings, unless there be something in the context inconsistent therewith:

"Act" means The Companies Act, Revised Statutes of Newfoundland 1970, Chapter 54, as the same may be from time to time amended, re-enacted or replaced.

"Common Shares" means the common shares without nominal or par value of the Company.

"directors" means the board of directors of the Company for the time being and reference without more to action by the directors shall mean action by the directors as a board or by any authorized committee thereof.

"Junior Shares" means the Common Shares and any other class of shares of the Company which ranks after or is subordinated to the Preferred Shares as to payment of dividends and/or as to return of capital.

(b) Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and vice versa and words importing persons shall include firms, associations and corporations and vice versa.

Issue in Series

2. The Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before issuance thereof, be determined by the directors.

Directors' Determination of Terms and Conditions Attaching to the Preferred Shares

3. The directors may from time to time by resolution fix before issuance the designation, rights, privileges, preferences, restrictions and conditions to attach to the Preferred Shares of each series including, without limiting or restricting the generality of the foregoing, preferential dividends (if any), the rate, amount or method of calculation of such dividends, whether cumulative, non-cumulative or partially cumulative, the currency or currencies of payment and the date or dates and places of payment thereof; the restrictions, if any, respecting payment of dividends on any Junior Shares; the rights of the Company, if any, to redeem any Preferred Shares of such series, the consideration for and terms and conditions of any such redemption and the restrictions, if any, upon the reissue of any Preferred Shares of such series so redeemed; the terms and conditions of any redemption fund or sinking fund or similar fund providing for the redemption of Preferred Shares of such series; the rights of retraction, if any, vested in the holders of Preferred Shares of such series and the prices and other terms and conditions of any rights of retraction; voting rights (if any); conversion or exchange rights (if any) into other shares or securities of the Company and the terms and conditions of any other provisions attaching to the Preferred Shares of such series.

Rateable Participation in Respect of Cumulative Dividends and Return of Capital

4. When any fixed cumulative dividends or amounts payable on a return of capital are not paid in full, the cumulative Preferred Shares of all series shall participate rateably with all shares, if any, ranking on a parity with the Preferred Shares with respect to payment of dividends, in respect of such dividends (but only to the extent of and in those cases where a series of Preferred Shares

bears cumulative preferential dividends) including accumulated dividends, if any, in accordance with the sums which would be payable on the cumulative Preferred Shares and such other shares if all such dividends were declared and to be paid in full, and Preferred Shares shall participate equally and rateably with all shares, if any, ranking on a parity with the Preferred Shares with respect to return of capital in respect of any return of capital in accordance with the sums which would be payable on the Preferred Shares and such other shares on such return of capital if all sums so payable were paid in full in accordance with their terms.

Preferences

5. The Preferred Shares shall, with respect to the payment of accumulated dividends, be entitled to preference over Junior Shares ranking junior to the Preferred Shares as to payment of dividends, and, with respect to the distribution of assets in the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among shareholders for the purpose of winding up its affairs, whether voluntary or involuntary, be entitled to preference over the Junior Shares ranking junior to the Preferred Shares as to return of capital. Subject as aforesaid and to clause 6 of these Preferred Shares Class Provisions, the Preferred Shares may also be given such other preferences over the Junior Shares as may be determined in the case of each series of Preferred Shares authorized to be issued.

Parity

6. The Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to the payment of dividends (but only to the extent of and in those cases where a series of Preferred Shares bears dividends) and in the distribution of assets of the Company among shareholders for the purpose of winding-up its affairs, whether voluntary or involuntary; provided, however, that in case such assets are insufficient to pay in full the amount due on all the Preferred Shares then outstanding, then such assets shall be applied firstly, to the payment equally and rateably of an amount equal to the capital paid up on the Preferred Shares of each series and the premium thereon, if any, secondly, pro rata to the payment of accrued and unpaid cumulative dividends (if any) and thirdly, pro rata to the payment of declared and unpaid non-cumulative dividends (if any), as the case may be, in accordance with the provisions of clause 5 of these Preferred Shares Class Provisions mutatis mutandis.

Creation and Issue of Additional Preferred Shares

7. Nothing herein contained shall require or be deemed to require any sanction from the holders of the Preferred Shares or any of them for the creation of additional preferred shares (other than preferred shares which by their terms rank prior to the Preferred Shares in any respect), provided:

(a) that the conditions, if any, set forth in any resolution of the directors with respect to any series of the Preferred Shares shall have been complied with; and

(b) that the Company may not, without the sanction of the holders of the Preferred Shares given as hereinafter specified, cause any such additional preferred shares to rank prior to the Preferred Shares in any respect or, unless such additional preferred shares shall be Preferred Shares, to rank on a parity with the Preferred Shares in all respects,

and it is a term of the issue of any of the Preferred Shares that the holders thereof consent to the creation of any such additional preferred shares.

No Pre-Emptive Right

8. The holders of the Preferred Shares shall not as such be entitled as of right to subscribe for or purchase or receive any part of any issue of shares or other securities of the Company now or hereafter authorized otherwise than in accordance with the conversion, exchange or other rights if any, which may from time to time attach to any series of the Preferred Shares.

Redemption

9. Subject to the provisions of the Act and to the provisions relating to the Preferred Shares of any series, the Company may, upon giving notice as hereinafter provided, redeem at any time the whole or from time to time any part of the then outstanding Preferred Shares of any series on payment for each share to be redeemed of the par value thereof together with (i) such premium (if any) determined for that purpose in respect of such series plus, (ii) in the case of cumulative Preferred Shares, an amount equal to all unpaid cumulative dividends (which for such purpose, shall be calculated as if such dividends were accruing from day to day for the period from the expiration of the last period for which dividends have been paid up to and including the date of such redemption), and (iii) in the case of non-cumulative Preferred Shares, all declared and unpaid non-cumulative dividends. In case the Company desires to redeem part only of the Preferred Shares of any series, the shares of such series to be redeemed shall be selected by lot in such manner as the directors may determine or, if the directors so determine, may be redeemed pro rata disregarding fractions.

Procedure on Redemption

10. In any case of redemption of Preferred Shares of any series under the provisions of clause 9 of these Preferred Shares Class Provisions, the Company shall, at least thirty (30) days before the date specified for redemption, mail to each person who at the date of mailing is a registered holder of Preferred Shares of such series to be redeemed a notice in writing of the intention of the Company to redeem such last-mentioned shares. Such notice shall be mailed in an envelope, postage prepaid, addressed to each such shareholder at his address as it appears on the books of the Company or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder; provided, however, that accidental failure or omission to give any such notice to one (1) or more of such holders shall not affect the validity of such redemption. Such notice shall set out the redemption price and the date on which redemption is to take place and if part only of the Preferred Shares of such series held by the person to whom it is addressed is to be redeemed the number thereof so to be redeemed. On or after the date so specified for redemption the Company shall pay or cause to be paid to or to the order of the registered holders of the Preferred Shares of such series to be redeemed the redemption price thereof on presentation and surrender, at the registered office of the Company or any other place within Canada designated in such notice, of the certificates representing the Preferred Shares of such series so called for redemption. Such payment shall be made by cheques payable at par at any branch of the Company's bankers for the time being in Canada. If a part only of the Preferred Shares of such series represented by any certificate shall be redeemed, a new certificate for the balance shall be issued at the expense of the Company. From and after the date specified for redemption in any such notice the Preferred Shares of such series called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected. The Company may include in any such notice a statement that the moneys required for the payment of the redemption price have been deposited or will be deposited on or before the opening of business on the date specified for redemption or a specified date prior to such date with a specified chartered bank or a specified trust company in Canada in trust for the respective holders of such shares to be paid to them respectively upon surrender to such bank or trust company of the certificate or certificates representing same, or that the Company has set aside such moneys or will be setting aside such moneys on or before the opening of business on the date specified for redemption or a specified date prior to such date in trust for the respective holders of such shares to be paid to them respectively upon surrender to the Company of the certificate or certificates representing the same and upon (i) the giving of such notice, and (ii) such deposit being made or such moneys being set aside, whichever is the later, such shares shall be deemed to be redeemed and all rights of the holders of such shares as against the Company shall be limited to receiving the

amount so deposited or set aside without interest and such holders shall cease to be entitled to dividends or any other participation in the assets of the Company and shall not be entitled to exercise any other rights as holders of the Preferred Shares so redeemed.

Amendments

11. The provisions of clauses 1 to 12, inclusive hereof, or any of them, may be repealed, altered, modified, amended or amplified only with the sanction of the holders of the Preferred Shares given as hereinafter specified in addition to any other approval required by the Act.

Sanction by Holders of Preferred Shares

12. The sanction of holders of the Preferred Shares or of any series of the Preferred Shares as to any and all matters referred to herein or as to any change adversely affecting the rights or privileges of the Preferred Shares or of such series may, subject to the provisions (if any) applicable to such series, be given by resolution passed at a meeting of such holders duly called for such purpose and held upon at least twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Preferred Shares or Preferred Shares of such series, as the case may be, are present or represented by proxy and carried by the affirmative vote of the holders of not less than sixty-six and two-thirds per cent (66-2/3%) of the Preferred Shares or Preferred Shares of such series, as the case may be, represented and voted at such meeting cast on a poll. If at any such meeting the holders of a majority of the outstanding Preferred Shares or Preferred Shares of such series, as the case may be, are not present or represented by proxy within half an hour after the time appointed for the meeting then the meeting shall be adjourned to such date being not less than fourteen (14) days later and to such time and place as may be appointed by the chairman and at least ten (10) days' notice shall be given of such adjourned meeting but it shall not be necessary in such notice to specify the purpose for which the meeting was originally called. At such adjourned meeting the holders of Preferred Shares or Preferred Shares of such series, as the case may be, present or represented by proxy shall constitute a quorum and may transact the business for which the meeting was originally convened and a resolution passed thereat by the affirmative vote of the holders of not less than sixty-six and two-thirds per cent (66-2/3%) of the Preferred Shares or Preferred Shares of such series, as the case may be, represented and voted at such adjourned meeting cast on a poll shall constitute the sanction of the holders of Preferred Shares or Preferred Shares of such series referred to in this clause 12. The formalities to be observed with respect to the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those which may from time to time be prescribed in the Memorandum or Articles of Association of the Company with respect to meetings of shareholders. On every poll taken at every such meeting or adjourned meeting every holder of Preferred Shares shall be entitled to one (1) vote in respect of each Preferred Share held.

BRINCO PREFERRED SHARES SERIES PROVISIONS

PART B — Preferred Shares Series A

The first series of Preferred Shares is designated as 7% cumulative convertible redeemable retractable preferred shares series A (the "Preferred Shares Series A") and, in addition to the rights, privileges, preferences, conditions and restrictions attached to the Preferred Shares as a class, shall have attached thereto the following rights, privileges, preferences, conditions and restrictions (collectively the "Preferred Shares Series A Series Provisions"):

Interpretation

1. (a) The following words and phrases whenever used in these Preferred Shares Series A Series Provisions shall have the following meanings, unless there be something in the context inconsistent therewith:

> "Additional Equity Shares" means any Equity Shares issued after May 1, 1979 (including Class A Shares) other than (a) Common Shares issued upon conversions of Preferred Shares Series A or Preferred Shares Series B; (b) Equity Shares issued upon exercise of stock options heretofore or hereafter granted to officers or employees of the Company or of any subsidiary or of any affiliate designated as such by the directors; and (c) Equity Shares issued to any such officers or employees or to a trustee on their behalf pursuant to any stock purchase or analogous plan; provided that a subdivision or consolidation of Equity Shares or a reclassification or change of Equity Shares shall not constitute an issue of Additional Equity Shares.
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> "Adjusted Consolidated Net Earnings Available for Dividends" means all the gross earnings and income of the Company and all its subsidiaries (if any) from all sources, less all administrative, selling and operating charges and expenses (except such charges and expenses as are chargeable to capital account in accordance with generally accepted accounting principles) of every character of the Company and all its subsidiaries (excluding extraordinary gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting principles; if, at the time of determining Adjusted Consolidated Net Earnings Available for Dividends for any past period in connection with a proposed issue of Preferred Shares or any other shares ranking in priority to or on a parity with the Preferred Shares Series A, the Company or any subsidiary has acquired, is in the process of acquiring, or proposes to acquire, any property or any shares of any other company (sufficient with any shares of such company already owned by the Company or a subsidiary to result in such other company becoming a subsidiary) and if the net proceeds of the then proposed issue of shares are to be applied directly or indirectly towards the cost of or in reimbursement of the cost of the acquisition of such property or shares (as to all of which a resolution of the board of directors shall be conclusive and binding) then the net earnings or net losses of such property or such other company (calculated in accordance with the provisions herein contained respecting Adjusted Consolidated Net Earnings Available for Dividends) for the whole of the period for which Adjusted Consolidated Net Earnings Available for Dividends are to be computed shall, if in the opinion of the Company's auditors the Company has access to data sufficient to enable such auditors to determine such net earnings or net losses, be treated as net earnings or net losses, as the case may be, in the computation of Adjusted Consolidated Net Earnings Available for Dividends. As at the time of determining Adjusted Consolidated Net Earnings Available for Dividends for any past period in connection with a proposed issue of shares and if the net proceeds of the then proposed issue of shares are to be applied in whole or in part to repay indebtedness of the Company or any subsidiary then the interest paid by the Company or the subsidiary, as the case may be, during the period of time in question with respect to the indebtedness to be repaid shall not be deducted as an expense in the computation of Adjusted Consolidated Net Earnings Available for Dividends and taxes paid or payable shall be appropriately adjusted.

"Amalgamation" means the amalgamation of Conuco Limited, Caballero Exploration Ltd., Canada 91639 Limited and Exalta Petroleums Ltd. pursuant to the terms of a Merger and Amalgamation Agreement made as of the 13th day of June, 1979 between the Company and the foregoing companies.

"business day" shall be a day other than a Saturday, a Sunday or any other day that is treated as a holiday in the municipality where the Company's principal office in Canada is situated.

"Class A Shares" means the Common Shares held by the Company and which are not outstanding and which have been designated by legislation of the Province of Newfoundland as Class A Shares of the Company for so long as such shares are held by the Company and are not outstanding.

"close of business" means the normal closing hour of the principal office in the City of Toronto of the transfer agent for the Preferred Shares Series A.

"Conversion Basis" at any time means the number of Common Shares into which one (1) Preferred Share Series A shall be convertible at such time in accordance with the provisions of clause 3 hereof.

"Effective Date of the Amalgamation" means the date of issuance of the Certificate of Amalgamation by the Registrar of Companies under and pursuant to The Companies Act (Alberta) in respect of the Amalgamation.

"Equity Shares" means the Common Shares as said shares were constituted on May 1, 1979 and shares of any other class or other securities, as the case may be, resulting from the re-classification of such Common Shares as provided in clause 3 hereof.

"Equivalent Conversion Price" at any time means the quotient obtained by dividing the sum of $5.50 by the Conversion Basis in effect at such time.

"Market Price":

(i) of the Common Shares at any date, means the weighted average of the closing board lot trading prices per share of the Common Shares on The Toronto Stock Exchange (or, if the Common Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for the purpose by the directors) during the twenty (20) most recent trading days on which there have been board lot trades immediately prior to the fourth (4th) day preceding such date. In the event that the Common Shares are not listed on any stock exchange, the Market Price of the Common Shares shall be determined by the directors; and

(ii) of the Preferred Shares Series A for the purposes of clause 6 hereof, means the weighted average as at the last day of any fiscal year of the Company of the closing board lot trading prices per share of the Preferred Share Series A on The Toronto Stock Exchange (or, if the Preferred Shares Series A are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for the purpose by the directors) during those trading days during the last completed fiscal year of the Company on which there have been board lot trades. In the event that the Preferred Shares Series A are not listed on any stock exchange, the Market Price of the Preferred Shares Series A shall be determined by the directors.

"Preferred Shares Series B" means the convertible retractable preferred shares series B with a par value of $5.50 each of the Company, being the second series of Preferred Shares.

"Shareholders' Equity" means at any given time an amount equal to the aggregate of retained earnings or deficit and contributed surplus of the Company and its subsidiaries and the amount paid-up on issued and outstanding Preferred Shares, shares of the Company ranking on a parity with or junior to the Preferred Shares and Common Shares of the Company, arrived at on a consolidated basis in accordance with generally accepted accounting principles.

"subsidiary company" or "subsidiary" means any corporation or company of which more than fifty per cent (50%) of the outstanding shares carrying voting rights at all times (provided that the ownership of such shares confers the right at all times to elect at least a majority of the board of directors of such corporation or company) are for the time being owned by or held for the Company and/or any other corporation or company in like relation to the Company and includes any corporation or company in like relation to a subsidiary and, in addition, means any other corporation or company the revenue and expense accounts of which may, from time to time, be consolidated by the Company in the revenue and expense accounts forming part of annual financial statements of the Company in accordance with generally accepted accounting principles.

(b) Clause 1 of the Preferred Shares Class Provisions entitled "Interpretation" is incorporated herein.

(c) In the event that any date on which any dividends on the Preferred Shares Series A are payable by the Company, or on or by which any other action is required to be taken by the Company under these Preferred Shares Series A Series Provisions is not a business day, then such dividend shall be payable, or such other action shall be required to be taken, on or by the next succeeding day which is a business day.

Dividends

2. The holders of the Preferred Shares Series A shall be entitled to receive, and the Company shall pay thereon, as and when declared by the directors out of the moneys of the Company properly applicable to the payment of dividends, fixed cumulative preferential cash dividends at the rate of 7% per annum on the amounts from time to time paid up thereon, payable quarterly on the last day of March, June, September and December in each year. The initial dividend, if declared, will be payable on December 31, 1979. If on any dividend payment date the dividend payable on such date is not paid in full on all of the Preferred Shares Series A then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates to be determined by the directors on which the Company shall have sufficient moneys properly applicable, under the provisions of any applicable law, to the payment of same. Fixed cumulative preferential cash dividends on the Preferred Shares Series A shall accrue from the Effective Date of the Amalgamation. The holders of the Preferred Shares Series A shall not be entitled to any dividend other than or in excess of the cumulative preferential cash dividends hereinbefore provided. Cheques of the Company payable in lawful money of Canada at par at any branch of the Company's bankers for the time being in Canada shall be issued in respect of the said dividends (less any tax required to be deducted) and payment thereof shall satisfy such dividends.

Conversion

3. (a) ***Right of Conversion***. The holders of the Preferred Shares Series A shall have the right, at any time and from time to time, up to the close of business on the Retraction Date (as defined in clause 4 of these Preferred Shares Series A Series Provisions), subject as hereinafter provided and to any adjustment to the Conversion Basis as hereinafter provided, to convert all or any of their Preferred Shares Series A into Common Shares, on the basis of 0.55 of a Common Share for each Preferred Share Series A converted. The Company shall send a notice to each holder of Preferred Shares Series A not earlier than one hundred and sixty (160) days and not later than sixty (60) days prior to the Retraction Date advising such holder of the expiration of the right of conversion. Such notice shall be sent in the manner provided for in clause 10 of the Preferred Share Class Provisions.

(b) ***Conversion Procedure***. The conversion right herein provided for may be exercised by notice in writing given to the transfer agent for the time being of the Company for the Preferred Shares Series A at its principal office in the City of Toronto, or at any other city or cities as the Company may from time to time designate, accompanied by the certificate or certificates representing the Preferred Shares Series A in respect of which the holder thereof desires to exercise such right of conversion. Such notice shall be signed by such holder or his duly authorized attorney and shall specify the number of Preferred Shares Series A which the holder desires to have converted. The certificate or certificates for such shares need not be endorsed, except in the circumstances hereinafter contemplated, and the certificates for Common Shares resulting from conversion shall be issued in the name of the registered holder of the Preferred Shares Series A converted or in such name or names as such registered holder may direct in writing (either in the notice referred to above or otherwise), provided that such registered holder shall pay any applicable security transfer taxes. If the certificates for Common Shares resulting from conversion are to be issued in a name other than that of the registered holder of the Preferred Shares Series A, the transfer form on the back of the certificate(s) representing such Preferred Shares Series A shall be endorsed by the registered holder thereof or his duly authorized attorney, with signature guaranteed in a manner satisfactory to the Company's transfer agent for the Preferred Shares Series A. If less than all the Preferred Shares Series A represented by any certificate or certificates accompanying any such notice are to be converted, the holder shall be entitled to receive, at the expense of the Company, a new certificate representing the Preferred Shares Series A comprised in the certificate or certificates surrendered as aforesaid which are not to be converted.

(c) ***Effect of Redemption***. In the case of any Preferred Shares Series A which may be called for redemption, the right of conversion thereof shall, notwithstanding anything herein contained, cease and terminate at the close of business on the business day immediately preceding the date fixed for redemption, provided, however, that if the Company shall fail to redeem such Preferred Shares Series A in accordance with the notice of redemption the right of conversion shall thereupon be restored.

(d) ***Effective Date of Conversion.*** Subject as hereinafter provided in this clause 3, Preferred Shares Series A shall be deemed to have been converted into Common Shares on the respective dates of surrender of certificates representing the Preferred Shares Series A to be converted accompanied by notice in writing as provided in subclause 3(b) hereof, notwithstanding any delay in the delivery of certificates representing the Common Shares into which such Preferred Shares Series A have been converted.

(e) ***Adjustment of Conversion Basis.***

(i) If the Company shall declare a dividend or make a distribution on its outstanding Common Shares payable in Common Shares, or shall subdivide its outstanding Common Shares into a greater number of shares, or shall consolidate its outstanding Common Shares into a smaller number of shares (any such event being herein called a "Common Share Reorganization") then the Conversion Basis shall be proportionately adjusted immediately after the record date at which the holders of Common Shares are determined for purposes of the Common Share Reorganization and any holder of Preferred Shares Series A who has not exercised his right of conversion prior to the effective date of such Common Share Reorganization shall be entitled to receive and shall accept, upon the exercise of such right at any time on such effective date or thereafter, in lieu of the number of Common Shares to which he was theretofore entitled upon conversion, the aggregate number of Common Shares of the Company that such holder would have been entitled to receive as a result of such Common Share Reorganization if, on the effective date thereof, he had been the registered holder of the number of Common Shares to which he was theretofore entitled upon conversion.

(ii) If there is a capital reorganization of the Company not covered by subclause 3(e)(i) hereof or a consolidation or merger or amalgamation of the Company with or into any other company including by way of a sale whereby all or substantially all of the Company's undertaking and assets would become the property of any other company (any of which is herein called a "Capital Reorganization"), any holder of Preferred Shares Series A who has not exercised his right of conversion prior to the effective date of such Capital Reorganization shall be entitled to receive and shall accept, upon the exercise of such right at any time on the effective date or thereafter, in lieu of the number of Common Shares to which he was theretofore entitled upon conversion, the aggregate number of shares or other securities or property of the Company or of the company resulting from or purchasing under the Capital Reorganization, that such holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, he had been the registered holder of the number of Common Shares to which he was theretofore entitled upon conversion; provided that no such Capital Reorganization shall be carried into effect unless, in the opinion of the directors, all necessary steps shall have been taken to ensure that the holders of the Preferred Shares Series A shall thereafter be entitled to receive such number of shares or other securities or property of the Company or of the company resulting from or purchasing under the Capital Reorganization, subject to adjustment thereafter in accordance with provisions similar, as nearly as may be, to those contained in this clause 3.

(iii) If the Company shall issue options, rights or warrants to holders of its outstanding Common Shares under which such holders are entitled to subscribe for or purchase Additional Equity Shares at a subscription or purchase price per share less than the Market Price in effect on the record date for such issue (any such event being herein called a "Rights Offering"), then the Conversion Basis shall be adjusted immediately after the record date at which the holders of Common Shares are determined for the purpose of the Rights Offering by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number determined by dividing the aggregate subscription price of the total number of Additional Equity Shares offered for subscription or purchase under the Rights Offering by the Market Price on such record date and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of Additional Equity Shares offered for subscription or purchase. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 3. If at the date of expiry of the options, rights or warrants less than all of them have been exercised so that less than all of the Equity Shares issuable with respect thereto have been issued, then the Conversion Basis shall be re-adjusted immediately after the date of expiry to the Conversion Basis which would have been in effect on such date of expiry if the only options, rights or warrants issued had been those that were exercised.

(iv) If the Company shall at any time or from time to time in any manner issue or sell any shares or securities convertible into or exchangeable for Common Shares (such convertible or exchangeable shares or securities being herein called "Convertible Securities"), whether or not the rights to exchange or convert the same are immediately exercisable, and the price per share for which Common Shares are issuable upon such conversion or exchange (determined by dividing (a) the total amount received or receivable by the Company as consideration for the issue of such Convertible Securities plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange of all such Convertible Securities, by (b) the total maximum number of Common Shares issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Market Price in effect immediately prior to the time of such issue or sale of Convertible Securities (any such event being herein called an "Issue of Convertible Securities"), then the Conversion Basis shall be adjusted immediately after such issue or sale by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect at such time by a fraction, of which the numerator shall be the total number of Common Shares outstanding at such date plus a number determined by dividing the aggregate issue or sale price of the total number of Common Shares issuable upon the conversion or exchange of all such Convertible Securities by the Market Price on the date of such issue or sale and of which the denominator shall be the total number of Common Shares outstanding on the date of such issue or sale plus the total number of Common Shares issuable upon such conversion or exchange. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 3. If, at the date of expiry of any conversion or exchange rights of or appertaining to any Convertible Securities, less than all of the Convertible Securities have been converted or exchanged so that less than all of the Common Shares issuable with respect thereto have been issued, then the Conversion Basis shall be re-adjusted immediately after such date of expiry to the Conversion Basis which would have been in effect on such date of expiry if the only Convertible Securities issued or sold had been those that were converted or exchanged. For the purposes of this subclause 3(e)(iv), Convertible Securities shall be deemed to be issued on the date on which the Company enters into an enforceable agreement to issue such Convertible Securities.

(v) If the Company shall at any time or from time to time issue or sell Additional Equity Shares, other than pursuant to the exercise of a conversion or exchange right attaching to a Convertible Security, at a price per share less than the Market Price in effect on the date of such issue or sale and such issue or sale does not constitute a Common Share Reorganization, a Capital Reorganization or a Rights Offering (any such event being herein called a "New Issue"), then the Conversion Basis shall be adjusted immediately after the date of such issue or sale by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on the date of issue or sale by a fraction, of which the numerator shall be the total number of Common Shares outstanding on the date of issue or sale plus a number determined by dividing the aggregate of the subscription price of the total number of Additional Equity Shares so issued or sold by the Market Price on the date of issue or sale and of which the denominator shall be the total number of Common Shares outstanding on the date of such issue or sale plus the total number of Additional Equity Shares issued or sold. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 3. For the purposes of this subclause 3 (e) (v), Additional Equity Shares shall be deemed to be issued on the date on which the Company enters into an enforceable agreement to issue such Additional Equity Shares.

(vi) If the Company shall issue or distribute to the holders of its outstanding Common Shares, shares of any class other than Common Shares, or options, rights or warrants, or evidences of indebtedness or any other assets (apart from cash) and such issuance or distribution does not constitute a Common Share Reorganization, a Capital Reorganization, a Rights Offering, an Issue of Convertible Securities or a New Issue (any such event being herein called a "Special Distribution"), then the Conversion Basis shall be adjusted immediately after the record date at which the holders of Common Shares are determined for purposes of the Special Distribution by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on the record date by a fraction, of which the numerator shall be a number determined by multiplying the total number of Common Shares outstanding on such record date by the Market Price on such date and deducting from the amount so obtained the aggregate fair market value, as determined by the directors, of the shares, options, rights, warrants, evidences of indebtedness or other assets distributed in the Special Distribution and of which the denominator shall be the total number of Common Shares outstanding on such record date multiplied by the Market Price on such record date (provided that no such adjustment shall be made if the result of such adjustment would be to decrease the Conversion Basis in effect immediately before such record date). The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 3.

(vii) If any re-classification or other change shall be made in the outstanding Common Shares, which re-classification or other change does not constitute a Common Share Reorganization or a Capital Reorganization, then the Conversion Basis shall be adjusted in such manner as the auditors of the Company determine to be appropriate.

(f) ***Conversion Adjustment Rules***. The following rules and procedures shall be applicable to Conversion Basis adjustments made pursuant to subclause 3 (e) hereof:

(i) any Common Shares (which for all purposes of this subsection (i) shall include Class A Shares) owned by or held for the account of the Company shall be deemed not to be outstanding but, for the purposes of this subsection (i), any Common Shares owned by a pension plan for employees of the Company or its subsidiaries shall not be considered to be owned by or held for the account of the Company;

(ii) in the case of any issue by the Company of Additional Equity Shares for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company for such Additional Equity Shares before deducting therefrom the amount of any commission, discount or other expenses which have been paid or incurred by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such Additional Equity Shares;

(iii) if the purchase price provided for in any Rights Offering referred to in subclause 3 (e) (iii) is decreased, or the rate at which any Convertible Securities referred to in subclause 3 (e) (iv) are convertible into or exchangeable for Common Shares is increased, the Conversion Basis shall forthwith be changed so as to increase the Conversion Basis to such Conversion Basis as would have obtained had the adjustment made upon the issuance of such Rights Offering or Convertible Securities been made upon the basis of such purchase price as so decreased or such rate as so increased, provided that the provisions of this subsection (iii) shall not apply to any such increase or decrease resulting from provisions in any such Rights Offering or Convertible Securities designed to prevent dilution if such increase or decrease shall not have been proportionately greater than the increase, if any, in the Conversion Basis to be made at the same time pursuant to the provisions of this clause 3;

(iv) no adjustment in the Conversion Basis shall be required unless a decrease of at least one per cent (1%) in the prevailing Equivalent Conversion Price would result, provided, however, that any adjustment which, except for the provisions of this subsection (iv) would otherwise have been required to be made, shall be carried forward and taken into account in any subsequent adjustment;

(v) if any question shall at any time arise with respect to adjustments in the Conversion Basis, such question shall be conclusively determined by the auditors of the Company and any such determination shall be binding upon the Company and all transfer agents and all shareholders of the Company;

(vi) forthwith after any adjustment in the Conversion Basis pursuant to the foregoing subclause 3 (e), the Company shall file with the transfer agent of the Company for the Preferred Shares Series A, a certificate certifying as to the amount of such adjustment and, in reasonable detail, the event requiring and the manner of computing such adjustment; the Company shall also at such time give written notice to the registered holders of Preferred Shares Series A of the Conversion Basis and the Equivalent Conversion Price following such adjustment and clause 10 of the Preferred Share Class Provisions with respect to the giving of notice of redemption shall apply mutatis mutandis to the giving of such notice; and

(vii) in the case of a New Issue for consideration other than cash, the adjustment required by subclause 3 (e) (v) hereof shall be based on the fair market value of such consideration, as determined by the directors.

(g) ***Entitlement to Dividends***. A holder of Preferred Shares Series A on the record date for any dividend declared payable on such share will be entitled to such dividend notwithstanding that such share is converted after such record date and before the payment date of such dividend, and the registered holder of any Common Share resulting from any conversion shall be entitled to rank equally with the registered holders of all other Common Shares in respect of all dividends declared payable to holders of Common Shares of record on any date after the date of conversion. Subject as aforesaid, no payment or adjustment will be made on account of any dividend, accured or otherwise, on the Preferred Shares Series A converted or the Common Shares resulting from any conversion.

(h) ***Notice of Certain Events***. If the Company intends to fix a record date for any Common Share Reorganization (other than the subdivision of outstanding Common Shares into a greater number of shares or the consolidation of outstanding Common Shares into a smaller number of shares) or for any Capital Reorganization or for any Rights Offering or Special Distribution, the Company shall, not less than twenty-one (21) days prior to such record date, notify each registered holder of Preferred Shares Series A of such intention by written notice to the extent that such particulars have been determined at the time of giving the notice and the provisions of clause 10 of the Preferred Shares Class Provisions with respect to the giving of notice of redemption shall appply mutatis mutandis to the giving of such notice.

(i) ***Avoidance of Fractional Shares***. In any case where a fraction of a Common Share would otherwise be issuable on conversion of one (1) or more Preferred Shares Series A, the Company shall adjust such fractional interest by the payment by cheque of an amount equal to the then current market value of such fractional interest computed on the basis of the last board lot sale price (or the last bid price if there had been no board lot sale) for the Common Shares on The Toronto Stock Exchange (or, if the Common Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for such purpose by the directors) next preceding the date of such surrender. In the event that the Common Shares are not listed on any stock exchange, the current market value of such fractional interest shall be determined by the directors.

(j) ***Postponement of Issuance of Shares upon Conversion***. In any case where the application of the foregoing provisions results in an increase of the Conversion Basis taking effect immediately after the record date for a specific event, if any Preferred Shares Series A are converted after that record date and prior to completion of the event, the Company may postpone the issuance to the holder of the additional Common Shares to which he is entitled by reason of the increase of the Conversion Basis but such additional Common Shares shall be so issued and delivered to that holder upon completion of the event and the Company shall deliver to the holder an appropriate instrument evidencing his right to receive such additional Common Shares.

(k) ***Reservation of Common Shares***. The Company covenants and agrees that, so long as any of the Preferred Shares Series A are outstanding and entitled to the right of conversion herein provided, it will at all times reserve and hold out of its unissued Common Shares a sufficient number of unissued Common Shares to enable all of the Preferred Shares Series A outstanding to be converted upon the basis and upon the terms and conditions herein provided in this clause 3; provided that nothing herein contained shall affect or restrict the right of the Company to increase the number of its Common Shares in accordance with the Act nor to issue such Common Shares from time to time.

Retraction Privilege

4. The Company shall once during the one hundred and sixty (160) day period ending on the date (the "Retraction Date") being the fifth (5th) anniversary of the Effective Date of the Amalgamation,

unless all the Preferred Shares Series A shall have theretofore been converted, redeemed or otherwise retired, invite tenders from all holders of the Preferred Shares Series A for the redemption of all such shares by the Company at a price equal to $5.50 per share plus accrued and unpaid cumulative preferential dividends (the "Retraction Price") (the date of such initial invitation and any other subsequent date herein provided on which the Company invites tenders from the holders of such Preferred Shares Series A for the redemption of such shares as herein provided being hereinafter called the "Invitation Date") and, subject as hereinafter provided, shall accept all such tenders received by it prior to the expiry of a period to be specified by the Company in such invitation (which period shall not be less than ninety (90) days from the date such invitation was mailed to the holders of Preferred Shares Series A but which shall not expire in any event before the thirtieth (30th) day after the Retraction Date), the date of the expiry of such period being hereinafter called the "Termination Date" and, subject as hereinafter provided, give written notice to each holder of a Preferred Share Series A making such tender reasonably promptly after receipt of the same that the same has been accepted by the Company and that payment of the Retraction Price of the Preferred Shares Series A so tendered will be made upon surrender of the certificates therefor (all of the foregoing being hereinafter called the "Retraction Privilege"). If such invitation is made not later than the sixtieth (60th) day prior to the Retraction Date, it may, but need not, include notice of the expiration of the right of conversion required to be given pursuant to subclause 3 (a) of these Preferred Shares Series A Series Provisions.

The Company shall only be obliged to redeem Preferred Shares Series A pursuant to the Retraction Privilege if and so long as such redemption would not be contrary to any applicable law. If at the Invitation Date, the Company believes that it would not be permitted by any applicable law to redeem all of the Preferred Shares Series A outstanding as at such date, the Company shall include in the invitation mailed to holders of the Preferred Shares Series A notice of the maximum number of Preferred Shares Series A which it then believes it will be permitted to redeem if tendered, provided that if the Company has acted in good faith the Company shall have no liability in the event that such belief proves inaccurate. If such redemption of all or any portion of the Preferred Shares Series A would be contrary to applicable law, the Company shall only be obliged to redeem to the extent that the moneys applied thereto shall be such amount (rounded to the next lower multiple of $5,000), as would not be contrary to such law. In such case, the Company shall redeem from each holder of tendered Preferred Shares Series A that number of whole Preferred Shares Series A that may be redeemed out of his pro rata share of the Retraction Price available as aforesaid and shall issue and deliver to him a new share certificate, at the expense of the Company, representing the Preferred Shares Series A not redeemed by the Company.

If a holder of Preferred Shares Series A wishes to tender only a part of the shares represented by any certificate, the holder may deposit the certificate representing such shares and at the same time advise the Company in writing as to the number of Preferred Shares Series A with respect to which his tender is being made and, if he does so, the Company shall issue and deliver to such holder, at the expense of the Company, a new share certificate representing the Preferred Shares Series A which are not being tendered.

If the Company, in its invitation for tenders, gives notice of a maximum number of shares which it then believes it will be permitted to redeem if tendered, or fails to redeem all of the Preferred Shares Series A duly tendered in accordance with the aforesaid Retraction Privilege, or any retraction privilege provided for in this paragraph, the holders of the Preferred Shares Series A shall be entitled to a further retraction privilege for which (x) the Invitation Date shall be such date after the time that the Company is no longer prevented by provisions of applicable law from redeeming the lesser of (i) the Preferred Shares Series A then outstanding, or (ii) 15,000 Preferred Shares Series A, as it is reasonably feasible for the Company to make an invitation for tenders in this regard and (y) the Retraction Date shall be the next succeeding date on which cumulative dividends on the Preferred Shares Series A are payable, which date is not less than eighty (80) days after the said Invitation Date.

Optional Redemption and Restrictions Thereon

5. The Company may not redeem the Preferred Shares Series A, or any of them, on or before the last day of the thirtieth (30th) month from the Effective Date of the Amalgamation. Thereafter, but only in the event that the trading price of the Common Shares (as hereinafter defined) as of the date on which the notice of redemption hereinafter referred to is given is not less than one hundred and fifty per cent (150%) of the Equivalent Conversion Price then in effect, the Company may, subject to the provisions of the Act and upon giving notice as provided in this clause 5, redeem at any time the whole or, subject to the provisions of clause 8 of these Preferred Shares Series A Series Provisions, from time to time any part of the then outstanding Preferred Shares Series A on payment for each share to be redeemed of the par value thereof together with all accrued and unpaid cumulative preferential dividends thereon, which for such purpose shall be calculated as if such dividends were accruing on a day to day basis for the period from the expiration of the last period for which dividends thereon have been paid up to the date of such redemption (such price, including accrued and unpaid dividends, at which Preferred Shares Series A may be redeemed at any given time pursuant to this clause 5 and to clause 6 of these Preferred Shares Series A Series Provisions being hereinafter called the "Redemption Price").

For purposes of this clause 5, " trading price" means the Market Price as in these Preferred Shares Series A Series Provisions defined; provided that if the number of Common Shares traded during the period of time required for the determination of the Market Price is less than 100,000, such period of time shall be increased to include that number of trading days during which not less than 100,000 Common Shares have traded.

The Company, on the date on which such notice of redemption is given, shall file with its transfer agent for the Preferred Shares Series A a certificate certifying as to the Equivalent Conversion Price then in effect.

Notice of any redemption of Preferred Shares Series A shall be given by the Company in the manner set forth in clause 10 of the Preferred Share Class Provisions.

On or after the date so specified for redemption, the Company shall pay or cause to be paid to or to the order of the registered holders of Preferred Shares Series A to be redeemed the Redemption Price in the manner set forth in clause 10 of the Preferred Shares Class Provisions.

Mandatory Redemption

6. Notwithstanding the provisions of the foregoing clause 5 but subject to the provisions hereinafter set out and to the provisions of the Act, in the event that the Market Price of the Preferred Shares Series A calculated as at the last day of any fiscal year of the Company (the "fiscal year end") is less than the par value thereof, the Company shall, upon giving notice as provided in this clause 6, redeem, within thirty (30) days of such fiscal year end, pro rata from the then holders of Preferred Shares Series A an amount of Preferred Shares Series A equal to five per cent (5%) of the aggregate par value of the total number of such shares issued by the Company at any time within sixty-five (65) days from and including the Effective Date of the Amalgamation (such total number of shares being hereinafter in these Preferred Shares Series A Series Provisions referred to as the "Original Outstanding Preferred Shares Series A") on payment for each Preferred Share Series A to be redeemed of the Redemption Price. The Company, on the date on which the notice of redemption hereinafter referred to is given or on the date being not later than the thirty-first (31st) day next following such fiscal year end, whichever is later, shall file with its transfer agent for the Preferred Shares Series A a certificate certifying as to the Market Price of the Preferred Shares Series A calculated as at such fiscal year end.

Notice of any redemption of Preferred Shares Series A pursuant to this clause 6 shall be given by the Company in the manner set forth in clause 10 of the Preferred Shares Class Provisions, except that the period for the giving of notice shall be abridged to a minimum of ten (10) days so that any redemption required pursuant to this clause 6 shall occur within thirty (30) days of any fiscal year end.

On or after the date so specified for redemption, the Company shall pay or cause to be paid to or to the order of the registered holders of Preferred Shares Series A to be redeemed the redemption price in the manner set forth in clause 10 of the Preferred Shares Class Provisions.

Notwithstanding the foregoing, the Company shall only be obliged to redeem Preferred Shares Series A under the foregoing provisions if and so long as such redemption would not be contrary to any applicable law.

Restoration to Class on Redemption or Conversion

7. Any Preferred Shares Series A which are redeemed or converted as herein provided shall, upon compliance with any applicable provisions of the Act, be therefrom restored to the status of authorized but unissued Preferred Shares not included in any series of Preferred Shares.

Restrictions on the Payment of Dividends and on Retirement of Shares

8. So long as any of the Preferred Shares Series A are outstanding, the Company shall not, without the prior approval of the holders of such Preferred Shares Series A:

(i) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares ranking junior to the Preferred Shares Series A in all respects) or make any other distribution on the shares ranking junior to the Preferred Shares Series A with respect to repayment of capital or payment of dividends,

(ii) call for redemption or reduce or otherwise retire for value any Common Shares or any other shares of any class ranking on a parity with or junior to the Preferred Shares Series A with respect to repayment of capital or payment of dividends (except out of the net cash proceeds of an issue of shares ranking junior to the Preferred Shares Series A in all respects made within the sixty (60) days preceding such call for redemption or reduction), or

(iii) call for redemption, otherwise than pursuant to clauses 4 and 6 of these Preferred Shares Series A Series Provisions, less than all of the Preferred Shares Series A then outstanding;

unless, in each case, all dividends up to and including the dividend payable for the last completed period for which such dividends shall be payable on the Preferred Shares Series A then outstanding shall have been declared and paid or set apart for payment at the date of such action.

Restrictions on Creation of Equal or Prior Ranking Shares

9. For the purposes of this clause 9, the directors of the Company may from time to time determine the Adjusted Consolidated Net Earnings Available for Dividends and/or Shareholders' Equity as at a date not more than one hundred and eighty (180) days prior to the making of such determination and may determine such Adjusted Consolidated Net Earnings Available for Dividends and/or Shareholders' Equity to be not less than a stated amount without determining the exact amount thereof; in making any such determination the directors shall consider and may rely on the last available audited consolidated balance sheet or statement of earnings of the Company and its subsidiaries and/or the last available audited balance sheet or statement of earnings of the Company reported on by the Company's auditors and may consider and rely on the last available unaudited consolidated balance sheet or statement of earnings of the Company and its subsidiaries and/or the last available unaudited balance sheet or statement of earnings of the Company prepared by the accounting officers of the Company and upon any other financial statement, report or other data which they may consider reliable and upon the last available independent property valuation provided that the directors shall not make any such determination on the basis of any such balance sheet, statement, report, valuation or other data if to their knowledge any event has happened which would materially and adversely affect such Adjusted Consolidated Net Earnings Available for Dividends and/or Shareholders' Equity as determined on such basis; upon any such determination having been made by the directors under the provisions hereof the Adjusted Consolidated Net Earnings Available for Dividends and/or Shareholders' Equity of the Company and its subsidiaries as at any date within a period of one hundred and eighty (180) days following the date as of which

such determination is made (unless any further determination of such Adjusted Consolidated Net Earnings Available for Dividends and/or Shareholders' Equity is so made within such period) shall be conclusively deemed to be not less than the amount stated in such determination and such determination shall be conclusive and binding on the Company and the holders of shares of every class.

So long as any of the Preferred Shares Series A are outstanding the Company shall not issue any other Preferred Shares or any share of any other class ranking in any respect prior to or on a parity with the Preferred Shares Series A unless, in either case: (i) Adjusted Consolidated Net Earnings Available for Dividends for any twelve (12) consecutive months of the eighteen (18) calendar months immediately preceding the date of issue of such shares shall have been at least equal to two (2) times the annual dividend requirements on all Preferred Shares and other such shares ranking prior to or on a parity with the Preferred Shares Series A to be outstanding immediately after such issue; and (ii) Shareholders' Equity as at a date not more than one hundred and eighty (180) days prior to such issue, shall be at least equal to one and one-half ($1\frac{1}{2}$) times the aggregate par value of all Preferred Shares and other shares of the Company ranking in priority to or on a parity with the Preferred Shares Series A to be outstanding immediately after such issue; provided that any of such shares which have been duly called for redemption and for the redemption of which adequate provision has been made assuring that such shares shall be redeemed within thirty-five (35) days thereafter shall be considered to have been redeemed for the purpose of this clause 9.

Liquidation, Dissolution or Winding-up

10. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs, the holders of the Preferred Shares Series A shall be entitled to receive the amount paid up on such shares together with all accrued and unpaid cumulative preferential dividends thereon, which for such purpose shall be calculated as if such dividends were accruing on a day to day basis for the period from the expiration of the last period for which dividends thereon have been paid up to the date of such event, the whole before any amount shall be paid or payable or assets of the Company shall be distributed to the holders of the Common Shares or to the holders of any other shares ranking junior to the Preferred Shares Series A with respect to payment of capital. After payment to the holders of the Preferred Shares Series A of the amount so payable to them they shall not be entitled to share in any further distribution of the assets of the Company.

Voting

11. The holders of the Preferred Shares Series A shall be entitled to receive notice of, and to attend and, either in person or by proxy, vote at (on the basis of that number of votes for each Preferred Share Series A equal to the Conversion Basis then in effect) all meetings of the shareholders of the Company other than separate meetings of the holders of shares of another series or class of shares of the Company.

Election of Directors

12. The holders of Preferred Shares Series A shall be entitled, voting separately and exclusively as a class, for so long as at least ten per cent (10%) of the Original Outstanding Preferred Shares Series A remain outstanding, to elect two (2) directors of the total number of the directors of the Company. Any vacancy occurring among members of the board elected to represent the holders of the Preferred Shares Series A may be filled by the board with the consent and approval of the remaining director elected to represent the holders of Preferred Shares Series A. Whether or not such vacancy is so filled by the board, when there are not two (2) directors in office who have been elected to represent the holders of Preferred Shares Series A by such holders, the holders of record of at least one-tenth (1/10th) of the outstanding Preferred Shares Series A shall have the right to

require the Secretary of the Company to call a meeting of the holders of the Preferred Shares Series A for the purpose of filling such vacancy or vacancies or replacing any person filling such vacancy or vacancies who has been appointed by the directors. In default of the calling of such meeting by the Secretary within five (5) days after the making of such request, it may be called by any holder or holders of record of outstanding Preferred Shares Series A. Any such meeting shall be called in accordance with the provisions for the calling of any extraordinary meeting of shareholders of the Company as may be provided in the Company's Memorandum and Articles of Association.

Notices

13. Unless otherwise specifically provided herein or in the Preferred Shares Class Provisions, any notice, cheque, invitation for tenders or other communication from the Company provided for in the Preferred Shares Series A Series Provisions shall be sent to the holders of the Preferred Shares Series A by ordinary unregistered mail, postage prepaid, at their respective addresses appearing on the books of the Company or, in the event of the address of any such holder not so appearing then at the last known address of such holder. Accidental failure to give any such notice, invitation for tenders or other communication to one or more holders of the Preferred Shares Series A shall not affect the validity thereof, but, upon such failure being discovered, the notice, invitation for tenders or other communication, as the case may be, shall be sent forthwith to such holder or holders and shall have the same effect as if given in due time.

Amendments

14. The provisions of clauses 1 to 15 inclusive of these Preferred Shares Series A Series Provisions, or any of them, may be repealed, altered, modified, amended or amplified only with the sanction of the holders of the Preferred Shares Series A given as hereinafter specified in addition to any other approval required by the Act.

Sanction by Holders of Preferred Shares Series A

15. The sanction of holders of the Preferred Shares Series A as to any and all matters referred to herein or as to any change adversely affecting the rights or privileges of the Preferred Shares Series A may be given and shall be deemed to have been sufficiently given if given by the holders of the Preferred Shares Series A in the manner provided in clause 12 of the Preferred Shares Class Provisions, which provisions shall apply mutatis mutandis as though the term "Preferred Shares Series A" were used in such clause in place of the term "Preferred Shares".

PART C — Preferred Shares Series B

The second series of Preferred Shares is designated as convertible retractable preferred shares series B (the "Preferred Shares Series B") and, in addition to the rights, privileges, preferences, conditions and restrictions attached to the Preferred Shares as a class, shall have attached thereto the following rights, privileges, preferences, restrictions and conditions (collectively the "Preferred Shares Series B Series Provisions"):

Interpretation

1. (a) The following words and phrases whenever used in these Preferred Shares Series B Series Provisions shall have the following meanings unless there be something in the context inconsistent therewith:

> "Additional Equity Shares" means any Equity Shares issued after May 1, 1979 (including Class A Shares) other than (a) Common Shares issued upon conversions of Preferred Shares Series B or Preferred Shares Series A; (b) Equity Shares issued upon exercise of stock options heretofore or hereafter granted to officers or employees of the Company or of any subsidiary or of any affiliate designated as such by the directors; and (c) Equity Shares issued to any such officers or employees or to a trustee on their behalf pursuant to any stock purchase or analogous plan; provided that a subdivision or consolidation of Equity Shares or a reclassification or change of Equity Shares shall not constitute an issue of Additional Equity Shares.
>
> "Amalgamation" means the amalgamation of Conuco Limited, Caballero Exploration Ltd., Canada 91639 Limited and Exalta Petroleums Ltd. pursuant to the terms of a Merger and Amalgamation Agreement made as of the 13th day of June, 1979 between the Company and the foregoing companies.
>
> "business day" shall be a day other than a Saturday, or Sunday or any other day that is treated as a holiday in the municipality where the Company's principal office in Canada is situated.
>
> "Class A Shares" means the Common Shares held by the Company and which are not outstanding and which have been designated by legislation of the Province of Newfoundland as Class A Shares of the Company for so long as such shares are held by the Company and are not outstanding.
>
> "close of business" means the normal closing hour of the principal office in the City of Toronto of the transfer agent for the Preferred Shares Series B.
>
> "Conversion Basis" at any time means the number of Common Shares into which one (1) Preferred Share Series B shall be convertible at such time in accordance with the provisions of clause 2 hereof.
>
> "Effective Date of the Amalgamation" means the date of issuance of the Certificate of Amalgamation by the Registrar of Companies under and pursuant to The Companies Act (Alberta) in respect of the Amalgamation.
>
> "Equity Shares" means the Common Shares as said shares were constituted on May 1, 1979 and shares of any other class or other securities, as the case may be, resulting from the re-classification of such Common Shares as provided in clause 2 hereof.
>
> "Equivalent Conversion Price" at any time means the quotient obtained by dividing the sum of $5.50 by the Conversion Basis in effect at such time.
>
> "Market Price" of the Common Shares at any date, means the weighted average of the closing board lot trading prices per share of the Common Shares on The Toronto Stock Exchange (or, if the Common Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for the purpose by the directors) during the twenty (20) most recent trading days on which there have been

board lot trades immediately prior to the fourth (4th) day preceding such date. In the event that the Common Shares are not listed on any stock exchange, the Market Price of the Common Shares shall be determined by the directors.

"Preferred Shares Series A" means the 7% cumulative convertible redeemable retractable preferred shares series A with a par value of $5.50 each of the Company, being the first series of Preferred Shares.

"Shareholders' Equity" means at any given time an amount equal to the aggregate of retained earnings or deficit and contributed surplus of the Company and its subsidiaries and the amount paid-up on issued and outstanding Preferred Shares, shares of the Company ranking on a parity with or junior to the Preferred Shares and Common Shares of the Company, arrived at on a consolidated basis in accordance with generally accepted accounting principles.

"subsidiary company" or "subsidiary" means any corporation or company of which more than fifty per cent (50%) of the outstanding shares carrying voting rights at all times (provided that the ownership of such shares confers the right at all times to elect at least a majority of the board of directors of such corporation or company) are for the time being owned by or held for the Company and/or any other corporation or company in like relation to the Company and includes any corporation or company in like relation to a subsidiary and, in addition, means any other corporation or company the revenue and expense accounts of which may, from time to time, be consolidated by the Company in the revenue and expense accounts forming part of annual financial statements of the Company in accordance with generally accepted accounting principles.

(b) Clause 1 of the Preferred Shares Class Provisions entitled "Interpretation" is incorporated herein.

(c) In the event that any date by which any action is required to be taken by the Company under these Preferred Shares Series B Series Provisions is not a business day, then such action shall be required to be taken on or by the next succeeding day which is a business day.

Conversion

2. (a) ***Right of Conversion.*** The holders of the Preferred Shares Series B shall have the right, at any time and from time to time, up to but not after the close of business on the Termination Date (as defined in clause 3 of these Preferred Shares Series B Series Provisions), subject to any adjustment to the Conversion Basis as hereinafter provided, to convert all or any of their Preferred Shares Series B into Common Shares, on the basis of 0.55 of a Common Share for each Preferred Share Series B converted.

(b) ***Conversion Procedure***. The conversion right herein provided for may be exercised by notice in writing given to the transfer agent for the time being of the Company for the Preferred Shares Series B at its principal office in the City of Toronto, or at any other city or cities as the Company may from time to time designate, accompanied by the certificate or certificates representing the Preferred Shares Series B in respect of which the holder thereof desires to exercise such right of conversion. Such notice shall be signed by such holder or his duly authorized attorney and shall specify the number of Preferred Shares Series B which the holder desires to have converted. The certificate or certificates for such shares need not be endorsed, except in the circumstances hereinafter contemplated, and the certificates for Common Shares resulting from conversion shall be issued in the name of the registered holder of the Preferred Shares Series B converted or in such name or names as such registered holder may direct in writing (either in the notice referred to above or otherwise), provided that such registered holder shall pay any applicable security transfer taxes. If the certificates for Common Shares resulting from conversion are to be issued in a name other than that of the registered holder of the Preferred Shares Series B, the transfer form on the back of the certificate(s) representing such Preferred Shares Series B shall be endorsed by the registered holder thereof or his duly authorized attorney, with signature guaranteed in a manner satisfactory to the Company's transfer agent for the Preferred Shares Series B. If less than all the Preferred Shares Series B represented by any certificate or certificates accompanying any such notice are to be converted, the holder shall be entitled to receive, at the expense of the Company, a new certificate representing the Preferred Shares Series B comprised in the certificate or certificates surrendered as aforesaid which are not to be converted.

(c) ***Effective Date of Conversion***. Subject as hereinafter provided in this clause 2, Preferred Shares Series B shall be deemed to have been converted into Common Shares on the respective dates of surrender of certificates representing the Preferred Shares Series B to be converted accompanied by notice in writing as provided in subclause 2(b) hereof, notwithstanding any delay in the delivery of certificates representing the Common Shares into which such Preferred Shares Series B have been converted.

(d) ***Adjustment of Conversion Basis.***

(i) If the Company shall declare a dividend or make a distribution on its outstanding Common Shares payable in Common Shares, or shall subdivide its outstanding Common Shares into a greater number of shares, or shall consolidate its outstanding Common Shares into a smaller number of shares (any such event being herein called a "Common Share Reorganization") then the Conversion Basis shall be proportionately adjusted immediately after the record date at which the holders of Common Shares are determined for purposes of the Common Share reorganization and any holder of Preferred Shares Series B who has not exercised his right of conversion prior to the effective date of such Common Share Reorganization shall be entitled to receive and shall accept, upon the exercise of such right at any time on such effective date or thereafter, in lieu of the number of Common Shares to which he was theretofore entitled upon conversion, the aggregate number of Common Shares of the Company that such holder would have been entitled to receive as a result of such Common Share Reorganization if, on the effective date thereof, he had been the registered holder of the number of Common Shares to which he was theretofore entitled upon conversion.

(ii) If there is a capital reorganization of the Company not covered by subclause 2 (d) (i) hereof or a consolidation or merger or amalgamation of the Company with or into any other company including by way of a sale whereby all or substantially all of the Company's undertaking and assets would become the property of any other company (any of which is herein called a "Capital Reorganization"), any holder of Preferred Shares Series B who has not exercised his right of conversion prior to the effective date of such Capital Reorganization shall be entitled to receive and shall accept, upon the exercise of such right at any time on the effective date or thereafter, in lieu of the number of Common Shares to which he was theretofore entitled upon conversion, the aggregate number of shares or other securities or property of the Company or of the company resulting from or purchasing under the Capital Reorganization, that such holder would have been entitled to receive as a result of such Capital Reorganization if, on the effective date thereof, he had been the registered holder of the number of Common Shares to which he was theretofore entitled upon conversion; provided that no such Capital Reorganization shall be carried into effect unless, in the opinion of the directors, all necessary steps shall have been taken to ensure that the holders of the Preferred Shares Series B shall thereafter be entitled to receive such number of shares or other securities or property of the Company or of the company resulting from or purchasing under the Capital Reorganization, subject to adjustment thereafter in accordance with provisions similar, as nearly as may be, to those contained in this clause 2.

(iii) If the Company shall issue options, rights or warrants to holders of its outstanding Common Shares under which such holders are entitled to subscribe for or purchase Additional Equity Shares at a subscription or purchase price per share less than the Market Price in effect on the record date for such issue (any such event being herein called a "Rights Offering"), then the Conversion Basis shall be adjusted immediately after the record date at which the holders of Common Shares are determined for the purpose of the Rights Offering by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number determined by dividing the aggregate subscription price of the total number of Additional Equity Shares offered for subscription or purchase under the Rights Offering by the Market Price on such record date and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of Additional Equity Shares offered for subscription or purchase. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 2. If at the date of expiry of the options, rights or warrants less than all of them have been exercised so that less than all of the Equity Shares issuable with respect thereto have been issued, then the Conversion Basis shall be re-adjusted immediately after the date of expiry to the Conversion Basis which would have been in effect on such date of expiry if the only options, rights or warrants issued had been those that were exercised.

(iv) If the Company shall at any time or from time to time in any manner issue or sell any shares or securities convertible into or exchangeable for Common Shares (such convertible or exchangeable shares or securities being herein called "Convertible Securities"), whether or not the rights to exchange or convert the same are immediately exercisable, and the price per share for which Common Shares are issuable upon such conversion or exchange (determined by dividing (a) the total amount received or receivable by the Company as consideration for the issue of such Convertible Securities plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange of all such Convertible Securities, by (b) the total maximum number of Common Shares issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Market Price in effect immediately prior to the time of such issue or sale of Convertible Securities (any such event being herein called an "Issue of Convertible Securities"), then the Conversion Basis shall be adjusted immediately after such issue or sale by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect at such time by a fraction, of which the numerator shall be the total number of Common Shares outstanding at such date plus a number determined by dividing the aggregate issue or sale price of the total number of Common Shares issuable upon the conversion or exchange of all such Convertible Securities by the Market Price on the date of such issue or sale and of which the denominator shall be the total number of Common Shares outstanding on the date of such issue or sale plus the total number of Common Shares issuable upon such conversion or exchange. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 2. If, at the date of expiry of any conversion or exchange rights of or appertaining to any Convertible Securities, less than all of the Convertible Securities have been converted or exchanged so that less than all of the Common Shares issuable with respect thereto have been issued, then the Conversion Basis shall be re-adjusted immediately after such date of expiry to the Conversion Basis which would have been in effect on such date of expiry if the only Convertible Securities issued or sold had been those that were converted or exchanged. For the purposes of this subclause 2 (d) (iv), Convertible Securities shall be deemed to be issued on the date on which the Company enters into an enforceable agreement to issue such Convertible Securities.

(v) If the Company shall at any time or from time to time issue or sell Additional Equity Shares, other than pursuant to the exercise of a conversion or exchange right attaching to a Convertible Security, at a price per share less than the Market Price in effect on the date of such issue or sale and such issue or sale does not constitute a Common Share Reorganization, a Capital Reorganization or a Rights Offering (any such event being herein called a "New Issue"), then the Conversion Basis shall be adjusted immediately after the date of such issue or sale by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on the date of issue or sale by a fraction, of which the numerator shall be the total number of Common Shares outstanding on the date of issue or sale plus a number determined by dividing the aggregate of the subscription price of the total number of Additional Equity Shares so issued or sold by the Market Price on the date of issue or sale and of which the denominator shall be the total number of Common Shares outstanding on the date of such issue or sale plus the total number of Additional Equity Shares issued or sold. The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 2. For the purposes of this subclause 2 (d) (v), Additional Equity Shares shall be deemed to be issued on the date on which the Company enters into an enforceable agreement to issue such Additional Equity Shares.

(vi) If the Company shall issue or distribute to the holders of its outstanding Common Shares, shares of any class other than Common Shares, or options, rights or warrants, or evidences of indebtedness or any other assets (apart from cash) and such issuance or distribution does not constitute a Common Share Reorganization, a Capital Reorganization, a Rights Offering, an Issue of Convertible Securities or a New Issue (any such event being herein called a "Special Distribution"), then the Conversion Basis shall be adjusted immediately after the record date at which the holders of Common Shares are determined for purposes of the Special Distribution by dividing into $5.50 the adjusted Equivalent Conversion Price determined by multiplying the Equivalent Conversion Price in effect on the record date by a fraction, of which the numerator shall be a number determined by multiplying the total number of Common Shares outstanding on such record date by the Market Price on such date and deducting from the amount so obtained the aggregate fair market value, as determined by the directors, of the shares, options, rights, warrants, evidences of indebtedness or other assets distributed in the Special Distribution and of which the denominator shall be the total number of Common Shares outstanding on such record date multiplied by the Market Price on such record date (provided that no such adjustment shall be made if the result of such adjustment would be to decrease the Conversion Basis in effect immediately before such record date). The resulting quotient, adjusted to the nearest 1/100th, shall thereafter be the Conversion Basis until further adjusted as provided in this clause 2.

(vii) If any re-classification or other change shall be made in the outstanding Common Shares, which re-classification or other change does not constitute a Common Share Reorganization or a Capital Reorganization, then the Conversion Basis shall be adjusted in such manner as the auditors of the Company determine to be appropriate.

(e) ***Conversion Adjustment Rules***. The following rules and procedures shall be applicable to Conversion Basis adjustments made pursuant to subclause 2 (d) hereof:

(i) any Common Shares (which for all purposes of this subsection (i) shall include Class A Shares) owned by or held for the account of the Company shall be deemed not to be outstanding but, for the purposes of this subsection (i), any Common Shares owned by a pension plan for employees of the Company or its subsidiaries shall not be considered to be owned by or held for the account of the Company;

(ii) in the case of any issue by the Company of Additional Equity Shares for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company for such Additional Equity Shares before deducting therefrom the amount of any commission, discount or other expenses which have been paid or incurred by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such Additional Equity Shares;

(iii) if the purchase price provided for in any Rights Offering referred to in subclause 2 (d) (iii) is decreased, or the rate at which any Convertible Securities referred to in subclause 2 (d) (iv) are convertible into or exchangeable for Common Shares is increased, the Conversion Basis shall forthwith be changed so as to increase the Conversion Basis to such Conversion Basis as would have obtained had the adjustment made upon the issuance of such Rights Offering or Convertible Securities been made upon the basis of such purchase price as so decreased or such rate as so increased, provided that the provisions of this subsection (iii) shall not apply to any such increase or decrease resulting from provisions in any such Rights Offering or Convertible Securities designed to prevent dilution if such increase or decrease shall not have been proportionately greater than the increase, if any, in the Conversion Basis to be made at the same time pursuant to the provisions of this clause 2;

(iv) no adjustment in the Conversion Basis shall be required unless a decrease of at least one per cent (1%) in the prevailing Equivalent Conversion Price would result, provided, however, that any adjustment which, except for the provisions of this subsection (iv) would otherwise have been required to be made, shall be carried forward and taken into account in any subsequent adjustment;

(v) if any question shall at any time arise with respect to adjustments in the Conversion Basis, such question shall be conclusively determined by the auditors of the Company and any such determination shall be binding upon the Company and all transfer agents and all shareholders of the Company;

(vi) forthwith after any adjustment in the Conversion Basis pursuant to the foregoing subclause 2 (d), the Company shall file with the transfer agent of the Company for the Preferred Shares Series B, a certificate certifying as to the amount of such adjustment and, in reasonable detail, the event requiring and the manner of computing such adjustment; the Company shall also at such time give written notice to the registered holders of Preferred Shares Series B of the Conversion Basis and the Equivalent Conversion Price following such adjustment and clause 10 of the Preferred Share Class Provisions with respect to the giving of notice of redemption shall apply mutatis mutandis to the giving of such notice; and

(vii) in the case of a New Issue for consideration other than cash, the adjustment required by subclause 2 (d) (v) hereof shall be based on the fair market value of such consideration, as determined by the directors.

(f) ***Entitlement to Dividends***. The registered holder of any Common Share resulting from any conversion pursuant to this clause 2 shall be entitled to rank equally with the registered holders of all other Common Shares in respect of all dividends declared payable to holders of Common Shares of record on any date after the date of conversion. Subject as aforesaid, no payment or adjustment will be made on account of any dividend, accrued or otherwise, on the Common Shares resulting from any conversion.

(g) ***Notice of Certain Events***. If the Company intends to fix a record date for any Common Share Reorganization (other than the subdivision of outstanding Common Shares into a greater number of shares or the consolidation of outstanding Common Shares into a smaller number of shares) or for any Capital Reorganization or for any Rights Offering or Special Distribution, the Company shall, not less than twenty-one (21) days prior to such record date, notify each registered holder of Preferred Shares Series B of such intention by written notice setting forth the particulars of the proposed event to the extent that such particulars have been determined at the time of giving the notice and the provisions of clause 10 of the Preferred Shares Class Provisions with respect to the giving of notice of redemption shall apply mutatis mutandis to the giving of such notice.

(h) ***Avoidance of Fractional Shares.*** In any case where a fraction of a Common Share would otherwise be issuable on conversion of one (1) or more Preferred Shares Series B, the Company shall adjust such fractional interest by the payment by cheque of an amount equal to the then current market value of such fractional interest computed on the basis of the last board lot sale price (or the last bid price if there had been no board lot sale) for the Common Shares on The Toronto Stock Exchange (or, if the Common Shares are not listed on The Toronto Stock Exchange, on such stock exchange on which such shares are listed as may be selected for such purpose by the directors) next preceding the date of such surrender. In the event that the Common Shares are not listed on any stock exchange, the current market value of such fractional interest shall be determined by the directors.

(i) ***Postponement of Issuance of Shares upon Conversion.*** In any case where the application of the foregoing provisions results in an increase of the Conversion Basis taking effect immediately after the record date for a specific event, if any Preferred Shares Series B are converted after that record date and prior to completion of the event, the Company may postpone the issuance to the holder of the additional Common Shares to which he is entitled by reason of the increase of the Conversion Basis but such additional Common Shares shall be so issued and delivered to that holder upon completion of the event and the Company shall deliver to the holder an appropriate instrument evidencing his right to receive such additional Common Shares.

(j) ***Reservation of Common Shares.*** The Company covenants and agrees that, so long as any of the Preferred Shares Series B are outstanding and entitled to the right of conversion herein provided, it will at all times reserve and hold out of its unissued Common Shares a sufficient number of unissued Common Shares to enable all of the Preferred Shares Series B outstanding to be converted upon the basis and upon the terms and conditions herein provided in this clause 2; provided that nothing herein contained shall affect or restrict the right of the Company to increase the number of its Common Shares in accordance with the Act nor to issue such Common Shares from time to time.

Retraction at Option of Holder and Deemed Conversion

3. A holder of Preferred Shares Series B shall be entitled until the close of business on the date of the first anniversary of the Effective Date of the Amalgamation (such date being herein called the "Termination Date"), to require the Company to redeem, subject to the provisions of the Act, at any time or times, all or any of the Preferred Shares Series B registered in the name of such holder on the books of the Company by tendering to the Company at its principal office a share certificate representing the Preferred Shares Series B which the registered holder desires to have the Company redeem. In the event that such holder does not accompany such certificate with a written request specifying the number of Preferred Shares Series B which such holder desires the Company to redeem, such holder shall be deemed to have requested the Company to redeem all the Preferred Shares Series B represented by the said certificate. The Company shall, on the thirtieth (30th) day (the "Redemption Date") after receipt by it of a share certificate representing the Preferred Shares Series B which the registered holder thereof desires to have redeemed, redeem such Preferred Shares Series B by paying to such registered holder an amount equal to the aggregate par value of the Preferred Shares Series B. Such payment shall be made by cheque payable at par at any branch of the Company's bankers for the time being in Canada. The said Preferred Shares Series B shall be redeemed on the Redemption Date and from and after the Redemption Date the holder thereof shall not be entitled to exercise any of the rights of a holder of Preferred Shares Series B in respect thereof unless payment of the redemption price is not made on the Redemption Date, in which event the rights of the holder of the said Preferred Shares Series B shall remain unaffected.

Notwithstanding the foregoing, the Company shall only be obliged to redeem Preferred Shares Series B under the foregoing provisions if and so long as such redemption would not be contrary to any applicable law.

In the event that a holder of Preferred Shares Series B does not tender his Preferred Shares Series B for redemption by the Company as aforesaid by the close of business on the Termination Date, or, if having so tendered, it would be contrary to any applicable law for the Company to redeem his Preferred Shares Series B so tendered, the right of a holder of Preferred Shares Series B to convert the same into Common Shares, as hereinbefore provided in clause 2 of these Preferred Shares Series B Series Provisions, shall be deemed to have been exercised by such holder as at the close of business on the Termination Date on the Conversion Basis in effect at that time, and such registered holder of Preferred Shares Series B shall be deemed to have become a holder of Common Shares of record of the Company for all purposes at such time and thereafter shall not be entitled to exercise any of the rights of a holder of Preferred Shares Series B. Forthwith following the Termination Date, the Company shall deliver or cause to be delivered to the former holders of the Preferred Shares Series B so converted, certificate(s) registered in the same name as the former holder of Preferred Shares Series B (unless prior to such delivery the Company or the transfer agent for the Preferred Shares Series B at its principal office in the City of Toronto shall have received written instructions from such registered holder directing in whose name or names such Common Shares are to be registered together with payment from such registered holder of any applicable security transfer taxes) representing the Common Shares into which such Preferred Shares Series B have been converted.

Any Preferred Shares Series B which are redeemed or converted as herein provided shall, upon compliance with any applicable provisions of the Act, be therefrom restored to the status of authorized but unissued Preferred Shares not included in any series of Preferred Shares.

Liquidation, Dissolution or Winding-up

4. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs, the holders of the Preferred Shares Series B shall be entitled to receive the amount paid up on such shares before any amount shall be paid or payable or assets of the Company shall be distributed to the holders of the Common Shares or to the holders of any other shares ranking junior to the Preferred Shares Series B with respect to payment of capital. After payment to the holders of the Preferred Shares Series B of the amount so payable to them they shall not be entitled to share in any further distribution of the assets of the Company.

Restriction on Redemption

5. Except as provided in clause 3 of these Preferred Shares Series B Series Provisions, the Preferred Shares Series B shall not be redeemable by the Company.

Restriction on Creation of Equal or Prior Ranking Shares

6. For the purposes of this clause 6, the directors of the Company may from time to time determine Shareholders' Equity as at a date not more than one hundred and eighty (180) days prior to the making of such determination and may determine such Shareholders' Equity to be not less than a stated amount without determining the exact amount thereof; in making any such determination the directors shall consider and may rely on the last available audited consolidated balance sheet of the Company and its subsidiaries and/or the last available audited balance sheet of the Company reported on by the Company's auditors and may consider and rely on the last available unaudited consolidated balance sheet of the Company prepared by the accounting officers of the Company and upon any other financial statement, report or other data which they may consider reliable and upon the last available independent property valuation provided that the directors shall not make any such determination on the basis of any such balance sheet, statement, report, valuation or other data if to their knowledge any event has happened which would materially and adversely affect such Shareholders' Equity as determined on such basis; upon any such determination having been made by the directors under the provisions hereof Shareholders' Equity of the Company and its subsidiaries as at any date within a period of one hundred and eighty (180) days following the

date as of which such determination is made (unless any further determination of such Shareholders' Equity is so made within such period) shall be conclusively deemed to be not less than the amount stated in such determination and such determination shall be conclusive and binding on the Company and the holders of shares of every class.

So long as any of the Preferred Shares Series B are outstanding the Company shall not issue any other Preferred Share or any share of any other class ranking in any respect prior to or on a parity with the Preferred Shares Series B unless Shareholders' Equity as at a date not more than one hundred and eighty (180) days prior to such issue, shall be at least equal to one and one-half (1-1/2) times the aggregate par value of all Preferred Shares and other shares of the Company ranking in priority to or on a parity with the Preferred Shares Series B to be outstanding immediately after such issue; provided that any of such shares which have been duly called for redemption and for the redemption of which adequate provision has been made assuring that such shares shall be redeemed within thirty-five (35) days thereafter shall be considered to have been redeemed for the purpose of this clause 6.

No Dividends

7. The Preferred Shares Series B shall not bear dividends.

Voting

8. The holders of the Preferred Shares Series B shall be entitled to receive notice of, and to attend and, either in person or by proxy, vote at (on the basis of that number of votes for each Preferred Share Series B equal to the Conversion Basis then in effect) all meetings of the shareholders of the Company other than separate meetings of the holders of shares of another series of class of shares of the Company.

Notices

9. Unless otherwise specifically provided herein or in the Preferred Shares Class Provisions, any notice, cheque, invitation for tenders or other communication from the Company provided for in the Preferred Shares Series B Series Provisions shall be sent to the holders of the Preferred Shares Series B by ordinary unregistered mail, postage prepaid, at their respective addresses appearing on the books of the Company or, in the event of the address of any such holder not so appearing then at the last known address of such holder. Accidental failure to give any such notice, invitation for tenders or other communication to one or more holders of the Preferred Shares Series B shall not affect the validity thereof, but, upon such failure being discovered, the notice, invitation for tenders or other communication, as the case may be, shall be sent forthwith to such holder or holders and shall have the same effect as if given in due time.

Amendments

10. The provisions of clauses 1 to 11, inclusive, of these Preferred Shares Series B Series Provisions, or any of them, may be repealed, altered, modified, amended or amplified only with the sanction of the holders of the Preferred Shares Series B given as hereinafter specified in addition to any other approval required by the Act.

Sanction by Holders of Preferred Shares Series B

11. The sanction of holders of the Preferred Shares Series B as to any and all matters referred to herein or as to any change adversely affecting the rights or privileges of the Preferred Shares Series B may be given and shall be deemed to have been sufficiently given if given by the holders of the Preferred Shares Series B in the manner provided in clause 12 of the Preferred Shares Class Provisions, which provisions shall apply mutatis mutandis as though the term "Preferred Shares Series B" were used in such clause in place of the term "Preferred Shares".

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