



NORTHERN AND CENTRAL GAS CORPORATION LIMITED • 4800 TORONTO-DOMINION CENTRE, TORONTO CANADA M5K 1E5

TELEPHONE (416) 866-4000

January 24, 1975

Dear Shareholder:

You are invited to attend a special meeting of the Common Shareholders of Northern and Central Gas Corporation Limited ("N & C") to be held at the Commerce Hall, Commerce Court, King and Bay Streets, Toronto, Ontario, on Thursday, February 27, 1975, at 10:30 a.m. (local time).

The meeting has been called to consider, vote upon, and approve a proposed reorganization of N & C and certain of its subsidiaries, including 61%-owned Canadian Industrial Gas & Oil Ltd. ("Cigol"). This will result in a new company to be called Norcen Energy Resources Limited ("Norcen").

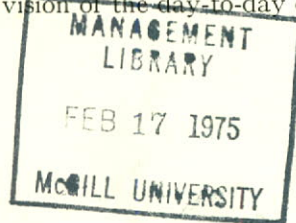
The reorganization will effect a merger of N & C and Cigol shareholder groups and provide for every N & C Common Shareholder to receive one Common Share of Norcen in exchange for one N & C Common Share. Every N & C Second Preference Shareholder and Junior Preference Shareholder will receive one First Preference Share and Junior Preference Share respectively of Norcen in exchange for each N & C Preference Share held. The Cigol Common Shareholder will receive seven Common Shares of Norcen for ten Common Shares of Cigol.

Norcen will be organized into three main operating groups—oil and gas exploration, development, production and transmission; distribution of natural gas and gas liquids; and exploration, development and production of coking and thermal coal.

As of January 1, 1975 Cigol agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. ("Great Plains"), a subsidiary of The Burmah Oil Company, Limited, for approximately \$96,000,000. Great Plains, a substantial natural resource company, is engaged primarily in the exploration for and production of crude oil and natural gas in Canada. If the acquisition is consummated as expected in late February or early March and if the reorganization is effected, Norcen will hold all of the outstanding shares of Great Plains. If the reorganization is not effected, N & C will have the right to purchase 22% of such shares, which would result in N & C shareholders having directly and through Cigol an interest in Great Plains comparable to that which they would have if the reorganization had been effected. N & C is assisting Cigol in the financing of the acquisition by providing a "comfort letter" to Cigol's bankers. The Board of Directors of N & C endorses this acquisition by Cigol and believes that it benefits the interests of N & C shareholders.

The shareholders of Norcen will consist of the present holders of the Common Shares, Second Preference Shares and Junior Preference Shares of N & C and the present public holders of the Common Shares of Cigol. Norcen will hold all shares of N & C (other than the First Preference Shares, which will remain with their present holders). The present holders of the Common Shares of N & C will hold 69.2% of the total outstanding Common Shares of Norcen and the balance will be held by the present Cigol public shareholders.

There will be a continuity of the present management of both companies with Edmund C. Bovey, presently Chairman of the Board of N & C, becoming Chairman of the Board and, as such, responsible for the general supervision of the affairs and business of Norcen. Edward G. Battle, formerly President of Cigol and currently President of N & C, will be President of Norcen and will be responsible for the general supervision of the day-to-day operations of Norcen.



Edward A. Galvin, Chairman of the Board and President of Cigol, becomes Vice-Chairman of Norcen. C. Spencer Clark, Vice-Chairman of N & C, will also be Vice-Chairman.

The present Chief Financial Officer of N & C, Timothy G. Sheeres, will be appointed Chief Financial Officer.

The proposed reorganization has been carefully considered by the Board of Directors, which believes that it will result in a corporation with development and growth capabilities substantially greater than the combined separate capabilities of the existing companies. Norcen will be in a better position to take advantage of potential opportunities in the future through a more flexible and productive utilization of cash flow. The reorganization will result in a substantially larger and more diversified company with a depth of management experience in all phases of the energy industry. The wider equity distribution should facilitate future debt and equity financing. In addition, the reorganization will facilitate compliance with regulatory requirements applicable to the utility operations.

For these reasons, the Board believes that the reorganization is in the best interests of N & C's shareholders and that the terms of the reorganization are fair and equitable. Although the pro-forma figures show a dilution in earnings on an historical basis, the Board nevertheless considers that the exchange ratio is fair to the shareholders of N & C because of the earnings potential and proven oil and gas reserves of Cigol and Great Plains. Wood Gundy Limited, financial adviser to N & C, has stated in a letter attached that, in its opinion, the terms of the reorganization are fair and equitable to the shareholders of N & C. Accordingly, the Board recommends that you vote in favour of the reorganization.

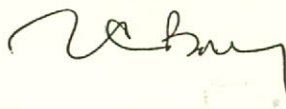
The accompanying Information Circular and Proxy Statement contains a detailed description of the proposed reorganization and of the operations of N & C and Cigol, together with financial statements including pro-forma financial information. The Information Circular and Proxy Statement also contains a description of Great Plains, its acquisition, and its pro-forma effect.

In order for the reorganization to become effective, the reorganization must be approved by the votes of the holders of at least 75% of the shares represented at the special meeting (and at similar meetings of other classes of N & C shareholders and of the Cigol shareholders) and, in addition, a number of other conditions referred to in the accompanying Information Circular and Proxy Statement must be satisfied.

The dividend of 17¢ per Common Share declared on December 11, 1974 with respect to the first quarter of 1975 will be paid on March 1, 1975.

It is important that you be present or else represented by proxy at the special meeting. If you do not expect to be able to attend the meeting in person, would you please complete, date and sign the enclosed form of proxy and return it in the stamped envelope provided as soon as possible.

Yours sincerely,



EDMUND C. BOVEY,
Chairman of the Board.

January 10, 1975



To the Second Preference, Junior Preference
and Common Shareholders of Northern and
Central Gas Corporation Limited

We have been retained by Northern and Central Gas Corporation Limited ("N & C") to advise it in connection with the proposed consolidation of its operations with those of its subsidiary, Canadian Industrial Gas & Oil Ltd. ("Cigol"), under a new continuing operating and holding company. We have considered both the means of accomplishing this and the appropriate ratio between the shares of N & C and the shares of Cigol on which the consolidation should be based.

Our advice to N & C has been based on extensive familiarity with its affairs gained in our position as its leading underwriter for some years, and on a similar familiarity with Cigol based on an underwriting connection with that firm and its predecessor companies extending back to the early 1950's. In addition, we have studied and analysed recent appraisals and evaluations of virtually all of the assets and operations of N & C and Cigol and their subsidiaries prepared by leading independent consulting firms, and have reviewed the proposed acquisition of all the shares of Great Plains Development Company of Canada, Ltd.

It is our opinion that the proposed consolidation of N & C and Cigol is in the best interests of the Common Shareholders of N & C by virtue of producing a stronger and more diversified continuing organization with a corporate structure considerably more rational and flexible than the present N & C structure. In our opinion the proposed method of consolidation, which is the result of much planning and study by N & C and its professional advisers, is a satisfactory and suitable one.

It is also our opinion that the proposed share exchange ratios—namely, 1 Common Share of the new company for each Common Share of N & C and 7 Common Shares of the new company for every 10 Common Shares of Cigol—are fair and equitable to the shareholders of both companies bearing in mind their assets and earnings, both past and potential, and the historical prices at which their shares have traded in the market.

Although the proposed basis of consolidation will result in a dilution of the earnings and cash flow per share of the N & C shareholder, in our opinion this is more than compensated for by a number of factors. These include—

- (i) the added diversification of the new consolidated company,
- (ii) the enhanced prospects for growth in assets and earnings of the new company as compared with the present N & C, and
- (iii) the improvement in the ability of the new company, as compared with the present N & C, to deal with its cash flow and earnings both in the matter of directing them to the most profitable investment areas or to the payment of dividends.

It is our further opinion that the proposed consolidation and exchange ratios are fair and equitable to and in the best interests of the holders of the Second and Junior Preference Shares of N & C for two reasons. Firstly, the consolidation will make available the full earnings of Cigol, rather than merely a portion of them as at present, as backing for the Preference Share dividends. Secondly, those Preference Shares which are convertible will benefit from what we believe to be the enhanced prospects of the Common Shares consequent on the consolidation.

Yours very truly,

WOOD GUNDY LIMITED

Per: DAVID C. H. STANLEY
Vice-President and Director

CL Gundy
CE Medland
JN Cole
JR LeMesurier
JN Abell
DCH Stanley
IS Steers
RE Beale
JMG Scott



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

Notice of Meeting of Holders of Common Shares February 27, 1975

NOTICE IS HEREBY GIVEN that a meeting of the holders of the Common Shares of Northern and Central Gas Corporation Limited ("N & C") will be held at the Commerce Hall, Commerce Court, King and Bay Streets, Toronto, Ontario, on Thursday, February 27, 1975, at 10:30 a.m. (local time), for the following purposes:

- (1) to consider and, if thought fit, agree to and adopt an arrangement by N & C forming part of a proposed reorganization of N & C and certain of its subsidiaries, all as set forth in the accompanying Information Circular and Proxy Statement; and
- (2) to transact such other business as may properly come before the meeting or any adjournment thereof.

The effect of the arrangement and the interests therein of the management and Directors of N & C are described in detail in the accompanying Information Circular and Proxy Statement, which is incorporated herein by reference (see, in particular, "Description of the Reorganization" and "Interests of Management in the Reorganization").

DATED at Toronto, Ontario, this 24th day of January, 1975.

By Order of the Board of Directors,

W. T. KILBOURNE,
Secretary.

NOTE: If you do not expect to be able to attend the meeting in person, please complete, date and sign the enclosed form of proxy and return it in the stamped envelope provided for that purpose.

**NORTHERN AND CENTRAL GAS CORPORATION LIMITED
CANADIAN INDUSTRIAL GAS & OIL LTD.**

SUMMARY OF INFORMATION CIRCULAR AND PROXY STATEMENT

The Common and the Second and Junior Preference Shareholders of Northern and Central Gas Corporation Limited ("N & C") and the Common Shareholders of Canadian Industrial Gas & Oil Ltd. ("Cigol"), which is 61%-owned by N & C, are being asked to consider and vote upon a proposed reorganization of N & C and certain of its subsidiaries. Under the terms of the reorganization, each of the Common and Second and Junior Preference Shareholders of N & C and each of the Common Shareholders of Cigol (other than N & C) would, in effect, have his shares converted into shares of a company to be formed known as Norcen Energy Resources Limited ("Norcen").

Business of N & C and of Cigol

N & C is engaged in the distribution of natural gas in the Provinces of Ontario, Quebec and Manitoba; Cigol is engaged primarily in oil and gas exploration, production and transmission in Canada and exploration in other areas of the world; N & C's 82%-owned subsidiary Coleman Collieries Limited ("Coleman") is engaged in the exploration for and production of coal in Alberta. Under the terms of the reorganization, Norcen would be engaged directly in the oil and gas business presently conducted by Cigol and would be engaged indirectly (through N & C and Coleman, which would become subsidiaries of the new company) in gas distribution and coal exploration and production.

Exchange Ratios

Under the terms of the reorganization, the Common and the Second and Junior Preference Shares of N & C would, in effect, be exchanged for equivalent shares of Norcen on a one-for-one basis, and the Common Shares of Cigol (other than those held by N & C) would be converted into Common Shares of Norcen on the basis of seven Common Shares of Norcen for every ten Common Shares of Cigol held. Immediately following the reorganization, the present holders of Common Shares of N & C would hold approximately 69.2% of the total outstanding Common Shares of Norcen, and the balance of 30.8% would be held by the present Cigol public shareholders.

Reasons for the Reorganization

Among other reasons for the reorganization, the reorganization will result in a substantially larger and more diversified company with wide equity distribution, should facilitate future debt and equity financing as well as compliance with regulatory requirements applicable to the utility operations, and should enable more flexible utilization of the cash flow from non-regulated operations.

Conditions to the Reorganization

In addition to approval of the reorganization by the shareholders of N & C and of Cigol, the reorganization is subject to the satisfaction of a number of conditions, including obtaining approval by the Supreme Court of Ontario, the Lieutenant-Governor in Council of Ontario, the Supreme Court of Alberta and the Public Utilities Board of Alberta, obtaining consent by N & C's First Mortgage Bondholders, and obtaining rulings or legal opinions as to Canadian tax matters. Except for any modification of the terms of the reorganization made at the shareholders' meetings, the terms of the reorganization may not be modified other than by the Board of Directors of N & C or of Cigol in order to obtain any of the foregoing court or governmental approvals. In approving the reorganization, the courts are required to have regard to the interests of dissentient shareholders but, subject to such requirement, dissentient shareholders will not have any right to have their shares appraised and to receive the appraised cash value thereof. See "Description of the Reorganization"—"Rights of Dissentient N & C Shareholders", "Rights of Dissentient Cigol Shareholders" and "Conditions to the Reorganization".

Acquisition of Great Plains

Cigol, for the account of Norcen if the reorganization is effected, has agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. ("Great Plains") for a purchase price of approximately \$95,600,000 (subject to certain adjustments). Great Plains is engaged primarily in the exploration for and production of crude oil and natural gas in Canada. Consummation of the Great Plains acquisition is not conditional on the reorganization becoming effective. The acquisition is being made on the basis that, if the reorganization is not effected, Cigol would own all of the Great Plains shares subject to the right of N & C, which is assisting Cigol in financing \$93,000,000 of the

acquisition cost by providing a "comfort letter" to Cigol's bankers, to purchase 22% of such shares for an amount equal to 22% of Cigol's acquisition cost (which would result in N & C shareholders having directly and through Cigol an interest in Great Plains comparable to that which they would have if the reorganization had been effected). If N & C determines to exercise such right, it is expected that N & C would finance the acquisition cost by issuing debt or shares. The acquisition of Great Plains does not require shareholder approval.

**Comparative Per Common Share Data and
Common Share Dividends**

	December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
N & C (a)							
Historical net income (restated).....	\$.62	\$.69	\$.81	\$.84	\$.88	\$.46	\$.89
Pro-forma							
—giving effect to the acquisition of 100% of Great Plains before the reorganization.....					.77	.36	.81
—giving effect to the reorganization but excluding the acquisition of Great Plains..	.53	.61	.69	.72	.82	.46	.80
—giving effect to the reorganization and the acquisition of Great Plains.....					.68	.35	.69
Cigol (a)							
Historical net income (restated).....	.28	.26	.28	.30	.46	.31	.35
Pro-forma							
—giving effect to the acquisition of 100% of Great Plains before the reorganization.....					.32	.20	.30
—giving effect to the reorganization but excluding the acquisition of Great Plains..	.37	.43	.48	.50	.57	.32	.56
—giving effect to the reorganization and the acquisition of Great Plains.....					.48	.25	.48
Dividends per share							
N & C.....	.575	.60	.60	.60	.60	.45	.45
Cigol.....	—	—	—	—	.10	.025	.15

(a) Includes extraordinary items and is provided on a fully diluted basis.

As to book values at September 30, 1974, see "Comparative Per Common Share Data".

The prospective Directors of Norcen have informally determined that Norcen will adopt a policy of paying quarterly dividends on the Common Shares of Norcen and that, subject to declaration by the Board of Directors of Norcen, the initial quarterly dividend will be 17¢ per share, equal to the amount of the dividend payable on N & C's Common Shares for the first quarter of 1975.

On December 10, 1974, the day prior to the announcement of the exchange ratios, the closing prices of N & C and Cigol Common Shares on The Toronto Stock Exchange were \$7.75 and \$5.25 respectively.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
CANADIAN INDUSTRIAL GAS & OIL LTD.

INFORMATION CIRCULAR AND PROXY STATEMENT

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NORTHERN AND CENTRAL GAS CORPORATION LIMITED
CANADIAN INDUSTRIAL GAS & OIL LTD.
Information Circular and Proxy Statement
January 24, 1975

INTRODUCTION

General

This Information Circular and Proxy Statement is furnished in connection with the solicitation of proxies by the management of Northern and Central Gas Corporation Limited ("N & C") for use at:

(i) the meeting called for 10:30 a.m. (Toronto time) on February 27, 1975, of the holders of the Common Shares of N & C;

(ii) the meeting called for 1:30 p.m. (Toronto time) on February 27, 1975, of the holders of the Second Preference Shares of N & C; and

(iii) the meeting called for 3:00 p.m. (Toronto time) on February 27, 1975, of the holders of the Junior Preference Shares of N & C;

and in connection with the solicitation of proxies by the management of Canadian Industrial Gas & Oil Ltd. ("Cigol") for use at the special general meeting called for 9:30 a.m. (Calgary time) on February 26, 1975, of the holders of the Common Shares of Cigol. This Information Circular and Proxy Statement will also be furnished on request to the holders of other classes of securities of N & C or Cigol.

This Information Circular and Proxy Statement is being mailed on or about January 31, 1975, to each person entitled to notice of any of the above-mentioned meetings, together with the Chairman's introductory letter, notice of the particular meeting, and a form of proxy for use at the meeting.

All dollar amounts stated in this Information Circular and Proxy Statement are in Canadian dollars unless otherwise indicated. In late 1971, Canada announced that for the time being it would maintain a floating exchange rate for the Canadian dollar. Since that time the Canadian dollar floating exchange rate has generally followed the United States dollar floating exchange rate. **Between December 17, 1971 and January 24, 1975, the high and low noon buying rates for cable transfers in New York payable in Canadian dollars, as reported by the Federal Reserve Bank of New York, were \$1.0442 U.S. and \$0.9893 U.S., respectively. On January 24, 1975, the noon buying rate was \$1.0051 U.S.**

All information provided with respect to the business and properties of Great Plains Development Company of Canada, Ltd. ("Great Plains") and all information provided in the financial statements of Great Plains has been furnished to N & C and Cigol by Great Plains for inclusion in this Information Circular and Proxy Statement. **Cigol's acquisition of Great Plains has not been completed, and N & C and Cigol are not in a position to verify all of such information.**

Proposed Reorganization

The above-mentioned meetings have been called in order that the holders of the Common, Second Preference and Junior Preference Shares of N & C and the holders of the Common Shares of Cigol may consider and, if thought fit, approve a proposed reorganization involving N & C and its subsidiaries Cigol and Coleman Collieries Limited ("Coleman"). The reorganization has been approved by the Boards of Directors of N & C and Cigol (see "Description of the Reorganization—Exchange Ratios" as to abstaining Directors).

The first step in the proposed reorganization involves an "arrangement" by N & C under Ontario law creating a holding-company structure for N & C. For the purpose of such arrangement, a company called Newco Ltd. ("Newco") has been incorporated. Newco's share capital will be substantially the same as the issued share capital of N & C (except that there will be no class of shares of Newco corresponding to the First Preference Shares of N & C). Under the terms of the arrangement:

(a) N & C will transfer to Newco all of the Common Shares of Cigol owned by N & C, representing approximately 61% of the outstanding shares of Cigol;

A Registration Statement has been filed with the United States Securities and Exchange Commission covering certain shares of Norcen Energy Resources Limited to be issued in connection with the proposed reorganization. This Information Circular and Proxy Statement also constitutes a prospectus of Norcen Energy Resources Limited filed as part of such Registration Statement.

Such securities have not been approved or disapproved by the Securities and Exchange Commission nor has the Commission passed upon the accuracy or adequacy of this Information Circular and Proxy Statement. Any representation to the contrary is a criminal offence.

(b) N & C will transfer to Newco all of the Class A and Class B Shares of Coleman owned by N & C (representing approximately 82% of the outstanding common shares of Coleman) and all other equity and debt securities of Coleman owned by N & C;

(c) Newco will issue to N & C, in consideration for the Cigol and Coleman securities, an interest-bearing demand subordinated promissory note of Newco in a principal amount equal to the fair market value of the Cigol and Coleman securities; and

(d) each Common, Second Preference and Junior Preference Share of N & C will automatically be exchanged for a share of the corresponding class or series of Newco, with the result that N & C will become a subsidiary of Newco (no share certificates of Newco will be issued).

The second step in the proposed reorganization—which will be completed as soon as possible after the arrangement becomes effective—involves an “amalgamation” under Alberta law of Cigol and Newco to form one continuing company called Norcen Energy Resources Limited (“Norcen”) having the aggregate assets and liabilities of Cigol and Newco. The arrangement cannot become effective unless Cigol and Newco are in a position to make the amalgamation effective immediately thereafter.

The holders of each class of warrants for the purchase of Common Shares of N & C will be asked to agree to exchange their warrants for warrants for the purchase of Common Shares of Norcen having equivalent terms.

As a result of the reorganization, the equity securities of N & C and Cigol outstanding prior to the reorganization (other than the Common Shares of Cigol held by N & C, which will be cancelled, and other than the First Preference Shares of N & C) will be exchanged for equity securities of Norcen on the following basis (assuming that the holders of each class of N & C share purchase warrants agree to exchange such warrants for Norcen warrants):

<u>N & C</u>	<u>Norcen</u>
1 Common Share (without par value)	1 Common Share (without par value)
1 \$1.06 Second Preference Share, Series A (par value \$25.00)	1 \$1.06 First Preference Share, Series A (par value \$25.00)
1 \$1.50 Second Preference Share, Series B (par value \$25.00)	1 \$1.50 First Preference Share, Series B (par value \$25.00)
1 \$1.50 Junior Preference Share, First Series (par value \$25.00)	1 \$1.50 Junior Preference Share, First Series (par value \$25.00)
1 Common Share purchase warrant expiring June 1, 1977	1 Common Share purchase warrant expiring June 1, 1977
1 Common Share purchase warrant expiring August 1, 1977	1 Common Share purchase warrant expiring August 1, 1977
1 Common Share purchase warrant expiring June 30, 1978	1 Common Share purchase warrant expiring June 30, 1978
<u>Cigol</u>	
10 Common Shares (without par value)	7 Common Shares (without par value)

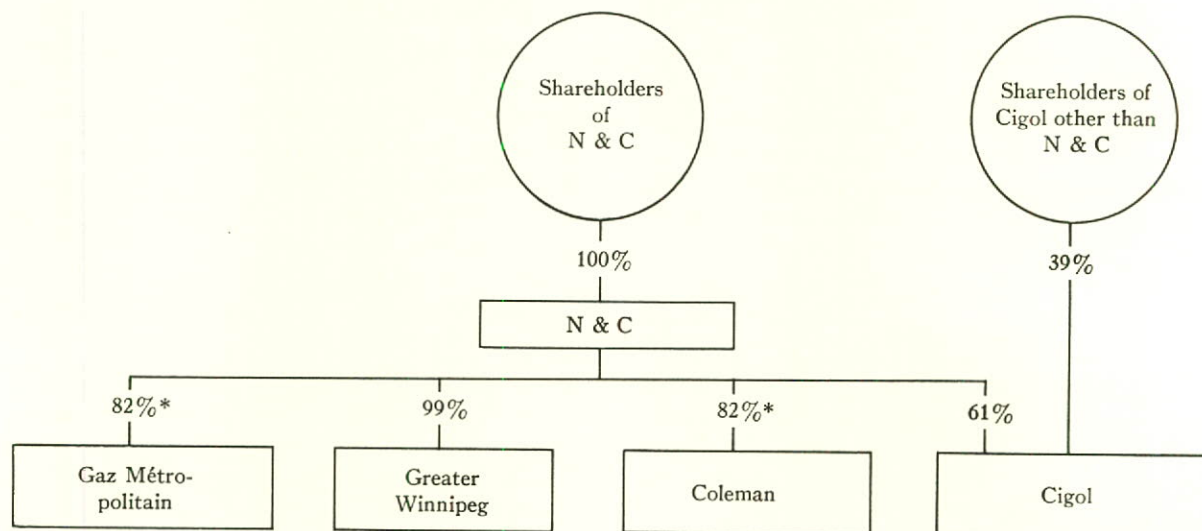
See “Employees’ Stock Options”. As of September 30, 1974, the book values of N & C and Cigol Common Shares were \$8.21 and \$3.78 per share respectively, and the pro-forma book value of a Common Share of Norcen was \$7.35 (\$5.15 per .7 of a share). No fractional shares of Norcen will be issued (see “Description of the Reorganization—Share Certificates and Scrip Certificates”).

Following the reorganization (on the basis of shares outstanding on January 6, 1975) the present N & C Common Shareholders will hold 69.2% of the outstanding Common Shares of Norcen and the present Cigol Common Shareholders (other than N & C) will hold 30.8% of such Common Shares. The present N & C Common Shareholders, Cigol Common Shareholders (other than N & C), N & C Second Preference Shareholders, and N & C Junior Preference Shareholders will hold approximately 60.6%, 27%, 5.7% and 6.7% respectively of the total number of outstanding shares of Norcen carrying voting rights in all circumstances. (The N & C Common Shareholders, N & C Second Preference Shareholders and N & C Junior Preference Shareholders presently hold approximately 83%, 7.7% and 9.3% respectively of the total number of outstanding shares of N & C carrying voting rights in all circumstances.)

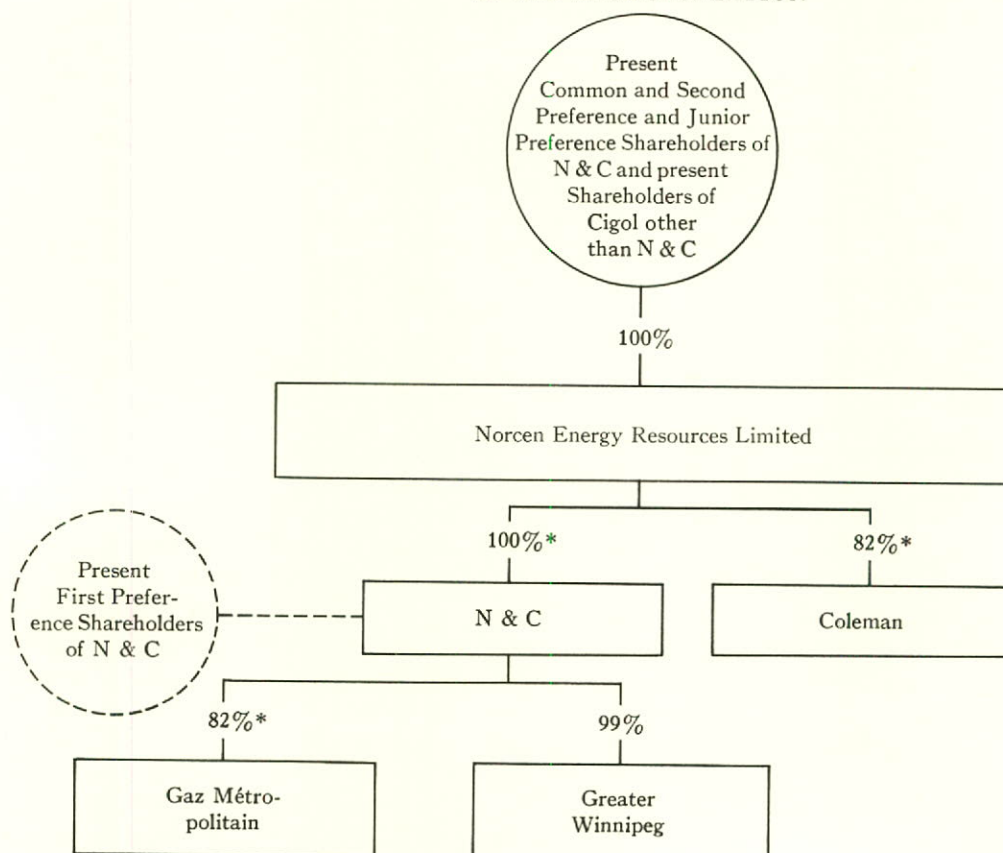
None of the First Preference Shares of N & C, which are presently non-voting and are non-convertible, or the debt securities of N & C will be exchanged for securities of Norcen. The debt securities of Cigol will become debt securities of Norcen.

Diagrammatically described below is the existing organizational structure of N & C and its major subsidiaries, including N & C's majority-owned gas utility subsidiaries Gaz Métropolitain, inc. and Greater Winnipeg Gas Company, and also the proposed structure immediately following the reorganization (showing in each case share ownership percentages):

BEFORE REORGANIZATION



AFTER REORGANIZATION



*Excluding First Preference Shares of N & C and Preferred Shares of Gaz Métropolitain, inc. and of Coleman.

Great Plains Acquisition

Cigol has agreed, for the account of Norcen if the reorganization is effected, to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. ("Great Plains") for a purchase price of approximately \$95,600,000 (subject to certain adjustments). Cigol has arranged to finance \$93,000,000 of the purchase price through long-term bank borrowings secured by a pledge of the Great Plains shares; N & C is not guaranteeing such borrowings, but is assisting Cigol in financing the acquisition by providing a "comfort letter" to Cigol's bankers. Great Plains is engaged primarily in the exploration for and production of crude oil and natural gas in Canada. Consummation of the Great Plains acquisition is not conditional on the reorganization becoming effective. The acquisition is being made on the basis that, if the reorganization is not effected, Cigol would own all of the Great Plains shares subject to the right of N & C to purchase 22% of such shares for an amount equal to 22% of Cigol's acquisition cost (which would result in N & C shareholders having directly and through Cigol an interest in Great Plains comparable to that which they would have if the reorganization had been effected). If N & C determines to exercise such right, it is expected that N & C would finance the acquisition cost by issuing debt or shares. The acquisition of Great Plains does not require shareholder approval. See "Acquisition of Great Plains".

PURPOSE OF THE REORGANIZATION

N & C is a public Ontario corporation whose direct operations consist of the distribution of natural gas in Ontario. Since the commencement of operations in Ontario in 1959, N & C has made a number of significant corporate acquisitions not only in the gas distribution field in Ontario, Quebec and Manitoba, but also in other energy and resource-oriented areas, particularly oil, gas and coal exploration, development and production.

N & C owns approximately 61% of the outstanding Common Shares of Cigol, which is a public Alberta corporation organized in 1965 in order to combine in a single corporate entity a number of companies whose principal operations were in oil and gas exploration, development and production. Since 1965 Cigol has made a number of significant corporate acquisitions primarily related to oil and gas exploration, production and transmission.

N & C also owns approximately 82% of the outstanding Class A and Class B (common) Shares of Coleman, which is a public Alberta corporation engaged in the exploration for and production of coal in Alberta.

The proposed reorganization would result in Norcen being engaged directly in the operations presently conducted by Cigol, primarily oil and gas exploration, production and transmission in Canada and oil and gas exploration in other areas of the world, and, if the Great Plains acquisition is consummated, indirectly in the oil and gas operations of Great Plains; Norcen would be engaged indirectly in the exploration for and production of coal in Alberta through the holding of the shares of Coleman presently held by N & C. N & C would be a subsidiary of Norcen and, consequently, Norcen would be engaged indirectly in gas distribution operations in Ontario, Quebec and Manitoba.

The purpose of the reorganization is to combine the present N & C and Cigol public shareholders into one larger company which it is expected will provide many advantages over the present corporate arrangement. Included among the advantages foreseen as arising from the reorganization are the following:

- (a) The new company and its shareholders will be less affected by specific factors from time to time affecting the respective businesses of N & C and Cigol and their shareholders.
- (b) The wider ownership of the shares of Norcen than exists for the shares of N & C or Cigol and the resultant more active trading of its shares should give Norcen better access to markets for equity capital.
- (c) Norcen will be able to pursue more flexible borrowing and other financial and investment policies than N & C because of its broader equity base and because it will not be subject to the utility-type restrictive covenants applicable to N & C under the terms of N & C's senior indebtedness.
- (d) Direct ownership by the parent company of the oil and gas operations should result in more flexible utilization of the cash flow from such operations.
- (e) As a result of the transfer to Norcen of N & C's non-utility investments, the regulatory process and regulatory accounting and reporting applicable to the N & C utility operations will be facilitated.
- (f) Combining the present N & C and Cigol public shareholder groups should facilitate organizational simplification of the group of companies.

DESCRIPTION OF THE REORGANIZATION

Newco

To facilitate the reorganization, Newco was incorporated under the laws of the Province of Alberta on December 5, 1974, with a nominal share capital. Prior to the reorganization, Newco's share capital will be changed so as to be substantially the same as the issued share capital of N & C, except that there will be no class of shares of Newco corresponding to the First Preference Shares of N & C and, accordingly, the class of shares of Newco corresponding to the Second Preference Shares of N & C will be designated as the First Preference Shares of Newco. The Directors of Newco are Edmund C. Bovey, Edward G. Battle and Timothy G. Sheeres, who are Officers of N & C. The only shares of Newco presently outstanding (the three incorporators' shares) are held in trust for the purposes of the reorganization and, upon completion of the reorganization, such shares will be cancelled. The assets and liabilities of Newco will be negligible before the arrangement becomes effective.

The shareholders of Newco at a meeting held on December 20, 1974 unanimously adopted an agreement providing for the amalgamation of Newco with Cigol to form a single company (Norcen), and, subject to the fulfilment of the conditions to the reorganization and the adoption of the amalgamation agreement by the shareholders of Cigol (see "Amalgamation of Cigol and Newco"), Newco proposes to apply jointly with Cigol to the Supreme Court of Alberta for approval of the amalgamation.

Arrangement by N & C

On December 11, 1974 N & C's Board of Directors authorized N & C to make an arrangement pursuant to Section 193 of The Business Corporations Act of Ontario, and on the same date N & C entered into an agreement with Newco for the purpose of carrying out the provisions of the arrangement (including the issuance by Newco of the necessary securities). A copy of the scheme of arrangement is set forth as Schedule A to this Information Circular and Proxy Statement and a copy of the agreement between N & C and Newco is set forth as Schedule B. To become effective under The Business Corporations Act the arrangement must:

(a) firstly, be agreed to and adopted, with or without variation, by the votes of the holders (present in person or represented by proxy) of at least 75% of the shares of N & C represented at each of the following meetings called for the purpose of considering the arrangement:

- (i) a meeting of the holders of the Common Shares of N & C called for 10:30 a.m. on February 27, 1975;
- (ii) a meeting of the holders of the Second Preference Shares of N & C called for 1:30 p.m. on February 27, 1975; and
- (iii) a meeting of the holders of the Junior Preference Shares of N & C called for 3:00 p.m. on February 27, 1975;

(b) secondly, be approved by the Supreme Court of Ontario; and

(c) thirdly, be the subject of a certificate issued by the Minister of Consumer and Commercial Relations of Ontario, the arrangement becoming effective upon the date set forth in such certificate.

Under the terms of the arrangement, N & C will transfer to Newco all of the securities of Cigol and of Coleman owned by N & C, viz., 13,112,529 Common Shares of Cigol and 184,630 Class A (voting common) Shares, 729,007 Class B (non-voting common) Shares and certain other equity and debt securities of Coleman. As a result of such transfer, Newco will own approximately 61% of the outstanding Common Shares of Cigol and approximately 82% of the outstanding common shares of Coleman. In consideration for the Cigol and Coleman securities, Newco will issue to N & C an unsecured promissory note, payable 60 days after demand, in a principal amount equal to the fair market value of the Cigol and Coleman securities as established in good faith by N & C and Newco. In the case of the Cigol shares, fair market value was established at \$66,855,000, the weighted average sales price of such shares on The Toronto Stock Exchange during the eight trading days commencing on the third trading day following December 11, 1974, the date on which the arrangement was authorized by N & C's Board of Directors, and, in the case of the Coleman securities, fair market value will be established by such method as, in the opinion of N & C and Newco, is reasonable in the circumstances. In the event that the Canadian tax authorities should value the Cigol and Coleman securities at an amount other than the sale price determined on the foregoing basis, then the price (and the stated principal amount of the promissory note) will be adjusted to the amount of the valuation by the tax authorities. The promissory note will bear interest at such annual rate as, when applied to the stated principal amount of the note, will result in the payment of an annual interest charge of approximately \$6,300,000. The promissory note will be prepayable by Newco on 60 days' notice. The principal of and

interest on the promissory note may be subordinated in right of payment to all other indebtedness of Newco (or, following the amalgamation, Norcen) incurred for money borrowed or incurred in connection with acquisitions, except that regular interest payments may be made notwithstanding a default on such other indebtedness.

The arrangement also provides for each share of N & C outstanding immediately prior to the arrangement becoming effective (other than any of the First Preference Shares) to be exchanged on a one-for-one basis for an equivalent share of Newco, except that the shares of Newco issued in exchange for Second Preference Shares of N & C will be designated as First Preference Shares of Newco.

The above-mentioned securities of Cigol and Coleman to be transferred by N & C to Newco are subject to a floating charge securing the outstanding First Mortgage and Collateral Trust Bonds of N & C and, accordingly, the transfer requires the consent of the holders of such Bonds in accordance with the provisions in that regard of the trust indenture pursuant to which the Bonds have been issued. See "Conditions to the Reorganization".

Under its terms the arrangement will not become effective before Cigol and Newco are in a position (subject to the arrangement becoming effective) to file with the Registrar of Companies of Alberta all final court orders and such other material as may be required to enable a certificate of amalgamation to issue continuing Cigol and Newco as one company called Norcen (see "Amalgamation of Cigol and Newco"). In addition, the arrangement will not become effective unless and until certain conditions have been satisfied (see "Conditions to the Reorganization").

Upon adoption of the arrangement by the shareholders of N & C at each of the above-mentioned meetings, N & C will apply to the Supreme Court of Ontario for an order of the Court approving the arrangement subject to the satisfaction of any then unsatisfied conditions to the arrangement. If the Court approves the arrangement and all conditions are satisfied, N & C will file with the Minister of Consumer and Commercial Relations of Ontario a statement in prescribed form and such other material as may be required by the Minister in order that he may issue a certificate making the arrangement effective.

Rights of Dissident N & C Shareholders

Section 194 of The Business Corporations Act of Ontario requires that, unless the Supreme Court of Ontario otherwise directs, N & C shall notify in such manner as the Court may direct each of its shareholders who dissents from the arrangement of the time and place at which N & C intends to apply to the Court for an order approving the arrangement. The Act also provides that, upon the application, the Court shall hear and determine the matter and may approve the arrangement as presented or subject to compliance with such terms and conditions as the Court thinks fit, having regard to the rights and interests of dissident shareholders or any of them. Subject to the foregoing, dissident shareholders will not have any right under Ontario law to have their shares appraised and to receive the appraised cash value thereof. In order to be considered a dissident shareholder, a shareholder must have voted against the arrangement.

Amalgamation of Cigol and Newco

On December 11, 1974 Cigol's Board of Directors authorized the amalgamation of Cigol with Newco pursuant to Section 156 of The Companies Act of Alberta, and on the same date Cigol entered into an amalgamation agreement with Newco, a copy of which agreement is set forth as Schedule C to this Information Circular and Proxy Statement. To become effective under The Companies Act the amalgamation must:

- (a) firstly, be adopted, with or without variation, by at least 75% of the votes cast by the Common Shareholders of Cigol present in person or represented by proxy at a special general meeting called for the purpose of considering the amalgamation (the shareholders of Newco having previously adopted the same);
- (b) secondly, be approved by the Supreme Court of Alberta (following written approval by the Registrar of Companies of Alberta); and
- (c) thirdly, be the subject of a certificate of amalgamation issued by the Registrar of Companies of Alberta, the amalgamation becoming effective upon the date set forth in such certificate.

Upon the amalgamation becoming effective, the two amalgamating companies, Cigol and Newco, will continue as one company (Norcen) having all of the assets and all of the liabilities (including the promissory note of Newco referred to under "Arrangement by N & C") of the two amalgamating companies. The reorganized corporate structure will be as outlined in the diagram headed "After Reorganization" under "Introduction—Proposed Reorganization". The Common Shares of Cigol held by Newco (being all those now held by N & C) will be cancelled and the remaining shareholders of Cigol will own seven Common Shares

of Norcen for every ten Common Shares of Cigol held; such shareholders will collectively hold (on the basis of shares outstanding on January 6, 1975) approximately 30.8% of the outstanding Common Shares of Norcen and approximately 27% of the voting rights attached to the outstanding shares of Norcen of all classes. The present holders of Common and Second and Junior Preference Shares of N & C (who will own shares of Newco at the time the amalgamation becomes effective) will receive equivalent shares of Norcen on a one-for-one basis; the present holders of Common Shares of N & C will collectively hold (on the basis of shares outstanding on January 6, 1975) approximately 69.2% of the outstanding Common Shares of Norcen and approximately 60.6% of the voting rights attached to the outstanding shares of Norcen of all classes. Assuming the conversion of all convertible Preference Shares of Norcen and the exercise of all share purchase warrants of Norcen, but not the exercise of any employees' stock options, immediately after the reorganization the present holders of N & C shares and warrants would hold approximately 76.1% of the outstanding Common Shares of Norcen and the present Cigol shareholders would hold approximately 23.9% of such Common Shares. (The holders of scrip certificates evidencing fractional interests in Common Shares of N & C and of Cigol will be entitled to receive bearer non-voting and non-dividend-bearing scrip certificates evidencing rights to receive certificates for Common Shares of Norcen (on the basis of the respective ratios for the exchange of N & C and Cigol Common Shares for Norcen Common Shares) upon surrendering the scrip certificates evidencing such rights together with other scrip certificates evidencing similar rights aggregating a whole number of shares; the Common Shares of Norcen underlying such scrip certificates will be sold after December 31, 1977, with the proceeds of sale and any accumulated dividends being held in trust for the holders of such scrip certificates.) For a description of the share and debt capital of Norcen following the reorganization, see "Description of Share Capital of Norcen" and "Capitalization".

As mentioned above, the shareholders of Newco before the arrangement voted unanimously on December 20, 1974 in favour of the amalgamation with Cigol and, accordingly, no further meeting of Newco will be held in connection with the amalgamation with Cigol. The holders of the Common Shares of Cigol will vote on the amalgamation at a special general meeting called for 9:30 a.m. on February 26, 1975. N & C intends to vote all of its Common Shares of Cigol in favour of the amalgamation; as the principal shareholder of Cigol (61%), N & C has a material interest in the amalgamation.

Under its terms, the amalgamation will not become effective before N & C has filed with the Minister of Consumer and Commercial Relations of Ontario a statement in prescribed form and such other material as may be required by the Minister in order that he may issue his certificate making the arrangement effective and the Minister has issued such certificate. In addition, the amalgamation will not become effective unless and until certain conditions have been satisfied (see "Conditions to the Reorganization").

Immediately after the amalgamation is adopted by the affirmative vote of 75% of the votes cast at the Cigol meeting, Cigol and Newco 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. If the amalgamation is approved by the Supreme Court of Alberta and all conditions are satisfied, Cigol and Newco will file with the Registrar of Companies of Alberta such final court orders and other material as may be required by the Registrar in order that he may issue a certificate making the amalgamation effective as soon as possible after the arrangement becomes effective.

Rights of Dissident Cigol Shareholders

Section 156 of The Companies Act of Alberta requires that, unless the Supreme Court of Alberta otherwise directs, Cigol and Newco 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 Cigol and Newco intend to apply to the Court 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 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 dissident shareholders and creditors. Subject to the foregoing, dissident shareholders will not have any right under Alberta law to have their shares appraised and to receive the appraised cash value thereof. In order to be considered a dissident shareholder, a shareholder must have voted against the amalgamation.

Exchange Ratios

The terms of the reorganization, including the ratios for converting shares of N & C (or Newco) and Cigol into shares of Norcen, were negotiated by the managements of N & C and Cigol and were unanimously approved by the Boards of Directors of N & C and Cigol, with one N & C Director and five Cigol Directors

abstaining. The abstaining N & C Director is also a Director of an institution holding shares of both N & C and Cigol (see "Proxy Solicitation and Voting of Shares — Voting of Shares and Principal Holders"); the five abstaining Cigol Directors were the four Directors who are also Directors of N & C and the Director who is Chairman of Nesbitt, Thomson and Company, Limited, which has been retained by Cigol as financial adviser in connection with the reorganization.

Wood Gundy Limited, financial adviser to N & C, has advised N & C as follows:

"Our advice to N & C has been based on extensive familiarity with its affairs gained in our position as its leading underwriter for some years, and on a similar familiarity with Cigol based on an underwriting connection with that firm and its predecessor companies extending back to the early 1950's. In addition, we have studied and analysed recent appraisals and evaluations of virtually all of the assets and operations of N & C and Cigol and their subsidiaries* prepared by leading independent consulting firms, and have reviewed the proposed acquisition of all the shares of Great Plains Development Company of Canada, Ltd.

It is our opinion that the proposed consolidation of N & C and Cigol is in the best interests of the Common Shareholders of N & C by virtue of producing a stronger and more diversified continuing organization with a corporate structure considerably more rational and flexible than the present N & C structure. In our opinion the proposed method of consolidation, which is the result of much planning and study by N & C and its professional advisers, is a satisfactory and suitable one.

It is also our opinion that the proposed share exchange ratios—namely, 1 Common Share of the new company for each Common Share of N & C and 7 Common Shares of the new company for every 10 Common Shares of Cigol—are fair and equitable to the shareholders of both companies bearing in mind their assets and earnings, both past and potential, and the historical prices at which their shares have traded in the market.

Although the proposed basis of consolidation will result in a dilution of the earnings and cash flow per share of the N & C shareholder, in our opinion this is more than compensated for by a number of factors. These include—

- (i) the added diversification of the new consolidated company,
- (ii) the enhanced prospects for growth in assets and earnings of the new company as compared with the present N & C, and
- (iii) the improvement in the ability of the new company, as compared with the present N & C, to deal with its cash flow and earnings both in the matter of directing them to the most profitable investment areas or to the payment of dividends.

It is our further opinion that the proposed consolidation and exchange ratios are fair and equitable to and in the best interests of the holders of the Second and Junior Preference Shares of N & C for two reasons. Firstly, the consolidation will make available the full earnings of Cigol, rather than merely a portion of them as at present, as backing for the Preference Share dividends. Secondly, those Preference Shares which are convertible will benefit from what we believe to be the enhanced prospects of the Common Shares consequent on the consolidation."

Nesbitt, Thomson and Company, Limited, financial adviser to Cigol, has advised Cigol as follows:

"Our advice to Cigol has been based on extensive familiarity with the affairs of both Cigol and N & C gained in a position as securities underwriter to each company.

Our analysis of the proposed reorganization included a study of recent evaluations of the assets of both companies* substantially all of which were evaluated by recognized independent appraisers; consideration of relative market prices of the two companies' shares, their historical revenues and earnings, their financial condition, the book values of their assets; an evaluation of the nature and prospects of their respective businesses and of that of Norcen and of the value to be received by shareholders of each company in terms of dividends and participation in Norcen. We have also considered the proposed acquisition of Great Plains Development Company of Canada, Ltd. ("Great Plains") by Cigol, the involvement by N & C in such acquisition including its right to acquire 22% of Great Plains, and the terms of financing for such acquisition. In addition, we had extensive discussions with senior executives and the directors of each of Cigol and N & C.

Taking into consideration our conclusions with respect to the foregoing and other factors we consider relevant in this instance, it is our opinion that the reorganization is in the interests of the shareholders of

*N & C and Cigol are advised that Wood Gundy Limited and Nesbitt, Thomson and Company, Limited studied recent reports as to the oil and gas reserves of Cigol and the coal reserves of Coleman.

Cigol and that an exchange ratio of 7 common shares of Norcen for every 10 shares of Cigol and 1 common share of Norcen for each common share of N & C would represent a fair and equitable exchange for the shareholders of Cigol."

No representative or controlling person of Wood Gundy Limited or Nesbitt, Thomson and Company, Limited is a Director or Officer of N & C or Cigol, except that J. Ian Crookston, Chairman of the Board of Nesbitt, Thomson and Company, Limited, is a Director of Cigol (see "Interests of Management in the Reorganization"). Neither of such firms holds of record, or, to the best of the knowledge of the N & C and Cigol managements, beneficially, any securities of N & C or Cigol, nor does any member of either firm hold of record, or, to the best of the knowledge of the N & C and Cigol managements, beneficially, a significant number of such securities. Wood Gundy Limited was retained by N & C and will receive \$75,000 for its services. Nesbitt, Thomson and Company, Limited was retained by Cigol and will receive \$75,000 for its services.

See "Interests of Management in the Reorganization" as to interests of Directors and Officers of N & C and Cigol in the reorganization and see "Management of N & C—Directors" and "Management of Cigol—Directors" as to ownership of securities of N & C and Cigol by Directors of N & C and Cigol.

Conditions to the Reorganization

In addition to approval of the arrangement by the shareholders of N & C and the Supreme Court of Ontario as set forth under "Arrangement by N & C" and the approval of the amalgamation by the shareholders of Cigol and the Supreme Court of Alberta as set forth under "Amalgamation of Cigol and Newco", the reorganization is subject to a number of conditions, including: (i) approval of certain aspects of the reorganization by the Lieutenant-Governor in Council of Ontario and by the Public Utilities Board of Alberta, (ii) the receipt of certain rulings from tax authorities or legal opinions as to the Canadian tax consequences of the reorganization (the receipt of rulings or further opinions as to the United States tax consequences of the reorganization not being a condition), (iii) the absence of additional terms and conditions imposed by the Supreme Court of Ontario, the Supreme Court of Alberta, the Lieutenant-Governor in Council of Ontario, or the Public Utilities Board of Alberta which, in the opinion of the Board of Directors of N & C or the Board of Directors of Cigol, would be unduly detrimental to the respective interests of N & C or Cigol or their respective shareholders, (iv) consent to the sale by N & C to Newco of the Cigol and Coleman securities by the holders of 66 $\frac{2}{3}$ % of the aggregate principal amount of the outstanding First Mortgage and Collateral Trust Bonds of N & C given in writing, or consent by such Bondholders given by resolution passed by at least 66 $\frac{2}{3}$ % of the votes cast thereon at a duly-constituted meeting of such Bondholders, and (v) the absence of extraordinary dividends or dividends in shares or capital distributions or share issuances (except as contemplated by the reorganization or pursuant to outstanding rights), in each case without the consent of the Directors of Cigol and Newco. In addition, the reorganization is conditional on it being completed no later than December 31, 1975, unless such date is extended by further shareholder action. There is no condition which would be applicable in the event of material changes or developments affecting either N & C or Cigol occurring between December 11, 1974, the date of the reorganization agreements, and the date on which the reorganization becomes effective. Consummation by Cigol of the acquisition of Great Plains is not a condition to the reorganization. See "Regulatory Board Approvals", "Tax Consequences of the Reorganization", "Rights of Dissentient N & C Shareholders", "Rights of Dissentient Cigol Shareholders" and "Acquisition of Great Plains". For a full statement of the conditions, see the scheme of arrangement and the agreement of amalgamation as set forth in Schedules A and C hereof.

It is the intention of the Directors of N & C not to proceed with the reorganization if tax rulings or legal opinions received by N & C are to the effect that the N & C shareholders whose shares are capital property would be required, under the Income Tax Act of Canada, to recognize a capital gain or a capital loss on the exchange of their shares under the arrangement. Similarly, it is the intention of the Directors of Cigol and of Newco not to proceed with the reorganization if tax rulings or legal opinions received by Cigol and Newco, respectively, are to the effect that the Cigol shareholders and the Newco shareholders, respectively, whose shares are capital property would be required, under the Income Tax Act of Canada, to recognize a capital gain or a capital loss upon the amalgamation.

Except for any modification of the terms of the arrangement or of the amalgamation made at the shareholders' meetings, the terms of the arrangement or amalgamation may not be modified other than by the Board of Directors of N & C or of Cigol, as the case may be, in order to obtain any of the foregoing court or

governmental approvals. No such modification would be required to be resubmitted to shareholders for approval.

Regulatory Board Approvals

Under the provisions of The Ontario Energy Board Act of Ontario, the acquisition by Newco of the N & C shares may not be effected without first obtaining the leave of the Lieutenant-Governor in Council of Ontario. Application for such leave will be made to the Ontario Energy Board, which is required to hold a public hearing on the application and to submit its report and opinion thereon to the Lieutenant-Governor in Council.

Under the provisions of The Gas Utilities Act of Alberta, the transfer of the Cigol shares by N & C to Newco pursuant to the terms of the arrangement, and the amalgamation of Cigol and Newco, require the approval of the Public Utilities Board of Alberta.

Tax Consequences of the Reorganization

N & C Shareholders and Warrantholders

Canadian Taxes—Residents of Canada

Provided that the Income Tax Act of Canada is amended as proposed in the November 18, 1974 Federal Budget, and provided that similar appropriate amendments are made, where necessary, to any relevant provincial statute levying an income tax, each person resident in Canada who owns shares of N & C that are capital property to him will, if he so chooses, not realize any capital gain or loss for Canadian income tax purposes in respect of the disposition by him of his shares of N & C in the course of the reorganization. Where he has so chosen, for the purposes of the Income Tax Act the cost to him of any shares of Norcen acquired by him by virtue of the reorganization will be

- (a) where he has acquired the N & C shares after 1971, an amount equal to the adjusted cost base to him of any N & C shares given up by him on the reorganization in order to acquire the Norcen shares, and
- (b) in any other case, determined by reference to the Income Tax Application Rules, 1971 as if the Norcen shares were, and always had been, the N & C shares.

Any person resident in Canada who owns warrants to acquire shares of the capital stock of N & C and who, by virtue of the reorganization, disposes of such warrants and acquires warrants to acquire shares of Norcen will

- (a) realize a gain equal to the amount, if any, by which the fair market value of any warrants of Norcen that he can be considered to have received as consideration for giving up his warrants of N & C exceeds the cost to him, determined for the purposes of the Income Tax Act, of his N & C warrants immediately before the reorganization, or
- (b) sustain a loss equal to the amount, if any, by which the cost to him, determined for the purposes of the Income Tax Act, of his N & C warrants immediately before the reorganization exceeds the fair market value of any warrants of Norcen that he can be considered to have received as consideration for giving up his warrants of N & C,

as the case may be. If the N & C warrants were capital property to the holder thereof, such gain or loss will be a capital gain or capital loss; in any other event, such gain or loss will be business income or will be business loss.

Canadian Taxes—Non-Residents of Canada

Non-residents of Canada who own shares or warrants of N & C that are capital property to them will, in computing income for Canadian tax purposes, not be required to recognize any capital gain or permitted to recognize any capital loss arising on the disposition by them of such warrants or shares in the course of the reorganization because such warrants and shares will not be taxable Canadian property within the meaning of the Income Tax Act.

United States Taxes

In the opinion of United States tax counsel, while the matter is not free from doubt, the reorganization should be tax-free to United States citizens, residents or corporations who hold Common, Second Preference and/or Junior Preference Shares of N & C, i.e., such shareholders would not recognize any gain or loss on the exchange of their respective shares of N & C for equivalent shares of Newco or on the conversion of such Newco shares into equivalent shares of Norcen, they would have the same basis for the Norcen shares as they had for their N & C shares, and, provided that their N & C shares are held as capital assets at the time of the reorganization, they would have the same holding period for the Norcen shares. N & C has

applied to the United States Internal Revenue Service for a ruling to the foregoing effect. If such ruling is not issued and if the reorganization were determined to be a taxable transaction for such United States citizens, residents or corporations, such shareholders would recognize gain or loss on such exchange and conversion in an amount equal to the difference between their cost or other basis for their shares and the fair market value of the shares of Norcen received by them. Any gain or loss recognized by such shareholders would be a capital gain or loss if the shares of N & C were held as capital assets on the effective date of the reorganization and would be long-term capital gain or loss if such shares of N & C had been held for more than six months on such effective date. Since shareholders of First Preference Shares of N & C will not make any exchange of their shares in the reorganization, they will not recognize any gain or loss.

Cigol Shareholders

Canadian Taxes—Residents of Canada

Provided that the Income Tax Act of Canada is amended as proposed in the November 18, 1974 Federal Budget, and provided that similar appropriate amendments are made, where necessary, to any relevant provincial statute levying an income tax, each person resident in Canada who owns Common Shares of Cigol that are capital property to him will, in computing income for Canadian tax purposes, not be required to recognize any capital gain or permitted to recognize any capital loss by virtue of the amalgamation. For purposes of the Income Tax Act the cost to him of any shares of Norcen held by him by virtue of the amalgamation will be

- (a) where he has acquired Cigol Common Shares after 1971, an amount equal to the adjusted cost base to him thereof immediately before the amalgamation, and
- (b) in any other case, determined by reference to the Income Tax Application Rules, 1971 as if the Norcen Common Shares were, and always had been, the Cigol Common Shares.

Canadian Taxes—Non-residents of Canada

Non-residents of Canada who own shares of Cigol that are capital property to them will, in computing income for Canadian tax purposes, not be required to recognize any capital gain or permitted to recognize any capital loss by virtue of the amalgamation because such shares will not be taxable Canadian property within the meaning of the Income Tax Act.

United States Taxes

In the opinion of United States tax counsel, while the matter is not free from doubt, the reorganization should be treated as a taxable transaction for United States citizens, residents or corporations who hold Common Shares of Cigol, i.e., such shareholders would recognize gain or loss on the conversion of their Common Shares of Cigol into Common Shares of Norcen in an amount equal to the difference between their cost or other basis for their Cigol shares and the fair market value of the shares of Norcen received by them upon the amalgamation. Any gain or loss recognized by such shareholders would be a capital gain or loss if the Common Shares of Cigol were held as capital assets on the effective date of the amalgamation and would be long-term capital gain or loss if the Common Shares of Cigol had been held for more than six months on such effective date. Cigol has applied to the United States Internal Revenue Service for a ruling to the foregoing effect. If such ruling is not issued and if the amalgamation were determined to be tax-free to such United States citizens, residents or corporations, such shareholders would not recognize any gain or loss on the exchange of their Common Shares of Cigol for Common Shares of Norcen, they would have the same basis for the Norcen shares as they had for their Cigol shares, and, provided that their Cigol shares are held as capital assets at the time of the reorganization, they would have the same holding period for the Norcen shares.

Interests of Management in the Reorganization

As stated under the heading "Exchange Ratios", Nesbitt, Thomson and Company, Limited has expressed an opinion to Cigol as to the terms of the proposed reorganization. J. Ian Crookston, a Director of Cigol, is Chairman of the Board of Nesbitt, Thomson and Company, Limited and, accordingly, he may be considered to have an interest in the reorganization.

The firm of Osler, Hoskin & Harcourt has acted as counsel to N & C and the firm of Macleod Dixon has acted as counsel to Cigol in connection with the reorganization. F. A. M. Huycke, Q.C., a partner of Osler, Hoskin & Harcourt, is a Director of N & C and Richey B. Love, Q.C., a partner of Macleod Dixon, is a Director of Cigol and, accordingly, they may be considered to have an interest in the reorganization.

Subject to the foregoing, none of the Directors or Officers of N & C or of Cigol has any interest in the reorganization except (i) as a Director, Officer or holder of securities of N & C and/or of Cigol, or (ii) as a proposed Director, Officer or holder of securities of Norcen. Edmund C. Bovey, the Chairman of the Board and a Director of N & C, Edward G. Battle, the President and a Director of N & C, and three other Directors of N & C, including Edward A. Galvin, the Chairman of the Board and President of Cigol, are also Directors of Cigol. See "Management of N & C—Directors" and "Management of Cigol—Directors" as to the Directors and Officers of N & C and of Cigol and their ownership of securities of N & C and of Cigol and their subsidiaries, and see "Proxy Solicitation and Voting of Shares—Voting of Shares and Principal Holders" as to the securities of Cigol owned by N & C.

Management and Offices of Norcen

The Board of Directors of Norcen following the reorganization will consist of the following persons, each of whom is a Director of either N & C or of Cigol or of both companies:

<u>Name</u>	<u>Presently a Director of</u>	<u>Name</u>	<u>Presently a Director of</u>
Edward G. Battle 44 Charles Street West, Apt. 4102, Toronto, Ontario.	N & C Cigol	A. Searle Leach 761 Wellington Crescent, Winnipeg, Manitoba.	N & C
Edmund C. Bovey 33 York Ridge Road, Willowdale, Ontario.	N & C Cigol	Richey B. Love, Q.C. 72 Baycrest Place, S.W., Calgary, Alberta.	Cigol
C. Spencer Clark Spring Drive, The Highlands, Seattle, Washington, U.S.A.	N & C Cigol	Blanke Noyes 373 Brookside Drive, Darien, Connecticut, U.S.A.	N & C
E. Jacques Courtois, Q.C. 9 Chelsea Place, Montreal, Quebec.	N & C	Linden J. Richards 46 Medford Place, Calgary, Alberta.	N & C
J. Ian Crookston 70 Ardworld Gate, Toronto, Ontario.	Cigol	Henry S. Romaine 162 Croton Lake Road, Mt. Kisco, New York, U.S.A.	Cigol
Edward A. Galvin 4103 Crestview Road, S.W., Calgary, Alberta.	N & C Cigol	William I. M. Turner, Jr. 4294 Montrose Avenue, Westmount, Quebec.	Cigol
F. A. M. Huycke, Q.C. 39 Rosedale Heights Drive, Toronto, Ontario.	N & C	Adam H. Zimmerman 15 Edgar Avenue, Toronto, Ontario.	Cigol
Raymond Lavoie 69 Maplewood Avenue, Montreal, Quebec.	N & C		

See "Management of N & C—Directors" and "Management of Cigol—Directors". Such Directors will serve until the first annual meeting of Norcen. Subject to change by the shareholders, the Board of Directors of Norcen will at all times have a minimum of 12 members and a maximum of 18 members.

The principal Officers of Norcen will be as follows:

Edmund C. Bovey	—Chairman of the Board
C. Spencer Clark	—Vice-Chairman of the Board
Edward A. Galvin	—Vice-Chairman of the Board
Edward G. Battle	—President
Timothy G. Sheeres	—Secretary-Treasurer

Each of the above-mentioned persons is presently an Officer of N & C or of Cigol or of both companies. Mr. Bovey, as the Senior Officer of Norcen, will have over-all responsibility for the management of the company and will preside at all shareholders' and directors' meetings. Mr. Battle will have responsibility for day-to-day operations.

On the basis of shares outstanding on January 6, 1975, following the reorganization the above-mentioned Directors and Officers of Norcen as a group will beneficially own, directly or indirectly, 90,938 Common Shares of Norcen.

Norcen will have its registered or head office at 640 Eighth Avenue S.W., Calgary, Alberta, T2P 1G9, and will have its executive office at 4600 Toronto-Dominion Centre, Toronto, Ontario, M5K 1E5.

Accounting Treatment of the Reorganization

For financial reporting purposes, the reorganization will be accounted for as though it were a pooling of interests. Riddell, Stead & Co., independent chartered accountants and the auditors for N & C and Cigol, have reviewed such accounting treatment and concur that it is in accordance with generally accepted Canadian accounting principles. Under generally accepted United States accounting principles, the reorganization would be accorded "purchase" accounting treatment. See Note (b) to the unaudited pro-forma condensed statement of income of Norcen giving effect to the proposed reorganization.

It is expected that, following completion of the reorganization, Thorne Riddell & Co., successors to Riddell, Stead & Co., will be appointed by the Board of Directors of Norcen as the auditors of Norcen.

Stock Exchange Listings

It is expected that the Common Shares of Norcen will be listed on the Toronto and Montreal Stock Exchanges. It is not the intention that Norcen's Common Shares will be listed on the New York Stock Exchange or on any other United States exchange, but Norcen will be required (as is N & C) to register the shares under the United States Securities Exchange Act and to comply with the reporting and other requirements of such Act. (The Common Shares of N & C are now listed on the Toronto, Montreal, Winnipeg, Vancouver and New York Stock Exchanges and the Common Shares of Cigol are now listed on The Toronto Stock Exchange.) It is expected that the First Preference Shares and the Junior Preference Shares of Norcen will be listed on the Toronto and Montreal Stock Exchanges.

The First Preference Shares of N & C will continue to be listed on The Toronto Stock Exchange.

Share Certificates and Scrip Certificates

After completion of the reorganization, a form of letter of transmittal containing instructions with respect to the exchange of N & C and Cigol share certificates for Norcen share certificates will be furnished to N & C and Cigol shareholders. Newco share certificates will not be issued.

No share certificates will be issued to Cigol shareholders in connection with the reorganization representing other than whole numbers of Common Shares. In lieu of share certificates, such shareholders will be entitled to receive bearer non-voting and non-dividend-bearing scrip certificates evidencing rights to receive certificates for Common Shares of Norcen upon surrendering to a transfer agent for Norcen's Common Shares scrip certificates evidencing such rights together with other scrip certificates evidencing similar rights aggregating a whole number of shares. Each person surrendering scrip certificates in exchange for share certificates will receive accumulated dividends on the underlying Common Shares. During the period ending December 31, 1977, such transfer agent will, at the request of any holder of a scrip certificate, attempt to sell his scrip certificate or to purchase on his behalf such additional scrip certificates as he may require in order to become entitled to a whole number of Norcen Common Shares; the charges of the transfer agent for these services, including brokerage fees, will be borne by Norcen. After December 31, 1977 the transfer agent will sell the Common Shares underlying the scrip certificates then outstanding and will hold the proceeds of such sale and all dividends paid thereon in trust pending surrender of the scrip certificates.

Share Purchase Warrants

The holders of each class of outstanding share purchase warrants of N & C, viz., the Common Share purchase warrants of N & C expiring June 1, 1977, August 1, 1977 and June 30, 1978, respectively, will be asked, in accordance with the provisions of trust indentures pursuant to which warrants have been issued, to agree to exchange their warrants for Common Share purchase warrants of Norcen having equivalent terms.

If the holders of all three classes of N & C warrants were not to agree to such exchange and all of such warrants were to be exercised, Norcen's ownership of N & C Common Shares would be reduced (on the basis of Common Shares and warrants outstanding on January 6, 1975) to approximately 94.4%.

Employees' Stock Options

There will be no change in the terms of the outstanding Cigol employees' stock options upon the reorganization becoming effective, except that the shares in respect of which the options are exercisable will be shares of Norcen rather than of Cigol and the numbers of optioned shares and option prices will be adjusted to reflect the ratio for the conversion of Cigol Common Shares into Norcen Common Shares upon the reorganization. N & C employees' stock options will remain outstanding, but it is expected that, under the terms of options granted by Norcen, such options will not be exercisable by any person holding N & C options unless the optionee then surrenders for cancellation all of his N & C options. See "Proposed Incentive Stock Option Plan of Norcen", "Management of N & C—Remuneration of and Transactions with Management" and "Management of Cigol—Remuneration of and Transactions with Management".

Regulation of Norcen and Subsidiaries

Norcen will be the continuing company resulting from the amalgamation of Cigol and Newco and will be subject to the regulatory provisions presently applicable to Cigol. In particular, under The Gas Utilities Act of Alberta, Cigol is required and Norcen will be required to procure the approval of the Public Utilities Board of Alberta before issuing any shares, bonds, debentures or other securities (other than certain short-term debt), before mortgaging any of its property, or before selling any of its property otherwise than in the ordinary course of business. (See "Business and Properties of Cigol—Competition and Regulation".) Those of the subsidiaries of Norcen such as N & C that operate utilities will also continue to be subject to the regulatory provisions presently applicable to them. N & C must obtain the approval of the Ontario Energy Board before selling any part of its distribution system as an entirety, but is not required to obtain regulatory board approval before issuing securities or before mortgaging property. (See "Business and Properties of N & C—Utility Operations—Regulation".)

Rights of Norcen Shareholders

As stated above, the reorganization will result, in effect, in the shareholders (other than the First Preference Shareholders) of N & C, an Ontario corporation, exchanging their shares of N & C for equivalent shares of Norcen, an Alberta corporation. The following are among the principal differences between the rights of the shareholders of an Alberta public corporation and the rights of the shareholders of an Ontario public corporation:

- (i) Under Ontario law a shareholder has a statutory right, with the permission of the Supreme Court of Ontario, to bring a derivative action on behalf of the corporation to enforce any right of the corporation which the corporation has not itself enforced. Under Alberta law the right to bring a derivative action has no statutory basis and is relatively limited in scope.
- (ii) Under Alberta law the holders of 10% or more of the voting shares of a corporation may require the holding of a shareholders' meeting, whereas under Ontario law the holders of 5% or more of the voting shares may require such a meeting.
- (iii) The memorandum of association of an Alberta corporation, which corresponds to the articles of incorporation of an Ontario corporation, may generally be amended only by 75% of the votes cast at a meeting of shareholders called for such purpose, subject, in most instances, to confirmation by an order of the Supreme Court of Alberta; any such amendment that affects the rights of the holders of any class of preference shares must also be confirmed by the shareholders of such class and, if confirmed at a meeting of such shareholders and unless otherwise provided in the provisions attaching to such class of shares, must be confirmed by 75% of the votes cast at the meeting. The articles of incorporation of an Ontario corporation may generally be amended by 66 $\frac{2}{3}$ % of the votes cast at a meeting of shareholders called for such purpose; any such amendment that affects the rights of the holders of any class of preference shares must also be confirmed by the holders of such class and, if so provided in the articles, may be confirmed by 66 $\frac{2}{3}$ % of the votes cast at a meeting of such shareholders.

- (iv) Under Ontario law the Board of Directors of a public company is required to appoint an audit committee to review the annual financial statements. Such a committee is not required under Alberta law. (Although not required by law, Cigol presently has an audit committee and the proposed articles of association of Norcen provide for the appointment of such a committee.)
- (v) Under Ontario law a majority of the members of the Board of Directors and of any executive committee must generally be "resident Canadians" and a majority of the meetings of the Board of Directors and of the executive committee in each year must generally be held in Canada. There are no such requirements under Alberta law.
- (vi) Under Ontario law the specific amount of remuneration payable to Directors must be fixed by by-law confirmed by the shareholders. There is no such requirement under Alberta law and the proposed articles of association of Norcen do not fix the amount of Directors' remuneration in specific terms.
- (vii) Although under Ontario law a Director may be removed during his term of office by a majority of the votes cast at a shareholders' meeting, under Alberta law the percentage of votes required to remove a Director from office is that provided for in the corporation's charter—which is permitted to exceed a majority of the votes cast. (The proposed articles of association of Norcen provide for the removal of a director by a majority of the votes cast.)
- (viii) Under Alberta law the removal of the auditor during his term of office requires a 75% shareholders' vote, whereas under Ontario law the auditor may be removed by a majority vote.
- (ix) 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 Ontario law the Supreme Court of Ontario may appoint an inspector upon application by a single shareholder regardless of the number of shares that he holds.
- (x) The articles of association of an Alberta corporation, which correspond to the by-laws of an Ontario corporation, may generally be amended or repealed only by 75% of the votes cast at a meeting of shareholders called for such purpose. Under Ontario law most by-law provisions may be amended or repealed by a majority of the votes cast at a meeting of shareholders called for such purpose, although a few provisions may not be amended or repealed except by two-thirds of the votes cast at such a meeting, e.g., provisions for loans to employees, the creation of an executive committee and the office of chairman of the board, and the payment of commissions or allowance of discounts in connection with the issuance of shares.

The proposed articles of association of Norcen, which form an exhibit to the amalgamation agreement between Cigol and Newco, are similar in form to the present general by-law and borrowing by-laws of N & C. The proposed articles of association of Norcen are somewhat different in form from the present articles of association of Cigol, but Cigol's management believes that none of the differences would be detrimental to the rights of the shareholders of Cigol.

ACQUISITION OF GREAT PLAINS

Cigol, for the account of Norcen if the reorganization is effected, has entered into an agreement (the "Purchase Agreement") dated as of January 1, 1975 with Burmah Oil Canada Limited ("Burmah") to purchase from Burmah all of the outstanding shares of Great Plains. The Purchase Agreement provides for a purchase price of approximately \$95,600,000, to be adjusted by the difference between the total current assets plus "Other Assets" (\$235,000 at September 30, 1974) and the total liabilities (excluding an interest-free loan from a gas purchaser in an amount not exceeding \$2,300,000 and excluding deferred income taxes) as of December 31, 1974, and certain other adjustments. Cigol estimates that all the adjustments will not result in increasing the purchase price by more than approximately \$750,000. Cigol's obligation to purchase the shares is subject to the fulfillment of certain conditions, each of which it may waive, including among others:

- (1) the furnishing to Cigol of favourable opinions from its solicitors as to the title of Great Plains and its subsidiaries to their principal oil and gas producing properties;
- (2) the furnishing to Cigol of audited financial statements of Great Plains and its subsidiaries for the year ended December 31, 1974 showing assets, other than current assets, of at least \$75,000,000 and paid-up capital and contributed surplus of at least \$28,500,000 and showing net earnings of at least \$10,000,000 before provision for income taxes and before extraordinary items of \$2,095,000;

- (3) the obtaining of a guarantee from Burmah's parent, The Burmah Oil Company, Limited, in favour of Cigol, guaranteeing the performance of the obligations of Burmah under the Purchase Agreement;
- (4) the obtaining of approvals to the extent required of the Public Utilities Board of Alberta, the Bank of England and other governmental agencies; and
- (5) the furnishing to Cigol of certificates of officers of Great Plains, certifying that, to the best of their knowledge, since September 30, 1974 there has been no material damage to or alteration in the assets or undertakings of Great Plains or of any subsidiary which would adversely affect in a material way the operations, assets or earnings of any of them, and as to various other matters concerning the business of Great Plains and its subsidiaries.

(Consummation of the Great Plains acquisition is not conditional upon the reorganization becoming effective.)

Burmah's obligation to sell the shares is subject, among other conditions, to obtaining the above-mentioned approval of the Bank of England and to obtaining the consent of certain financial institutions pursuant to the terms of a loan agreement between Burmah and such institutions. Burmah may waive any of the conditions to its obligation.

The Purchase Agreement provides for the purchase of the Great Plains shares to be consummated no later than March 31, 1975 subject to agreement otherwise by the parties, but Cigol presently anticipates that the transaction will be completed in late February or in early March, 1975.

Two Canadian chartered banks (the "Banks") have agreed to lend to Cigol \$93,000,000 to finance the Great Plains purchase, the balance to be financed out of working capital. The principal of the loan will be repayable in annual instalments over nine years with the first instalment in 1976 being \$6,000,000 and with subsequent instalments increasing to \$14,000,000 in 1984. The borrower will have the right to prepay the loan without penalty. Of the amount of the loan, \$43,000,000 will be represented by promissory notes bearing interest at the Banks' prime interest rate plus 1% per annum in 1975 increasing from time to time by increments of $\frac{1}{4}$ of 1% to 2% by 1982. The Banks will have the option at any time of converting such portion of the loan into a United States dollar loan at an interest rate of $1\frac{1}{2}\%$ per annum over the London inter-bank offered rate in effect from time to time for three, six, nine or twelve months' periods to be selected by Cigol. The balance of the loan, in the amount of \$50,000,000, will be financed by bankers' acceptances at a commission rate of $\frac{3}{4}$ of 1% per annum; however, if for any reason Cigol should be unable at any time to market bankers' acceptances for all or part of this portion of the loan, such portion of the loan or part thereof will be financed on the same basis as the \$43,000,000 portion. The \$93,000,000 loan and interest are to be repaid out of the consolidated resources of Cigol (and of Norcen following the reorganization) and will be secured by a pledge of the Great Plains shares being purchased. N & C is not guaranteeing the loan, but is assisting Cigol with such financing by furnishing to the Banks a "comfort letter" stating in effect that, subject to the reorganization transactions, N & C intends, at least so long as Cigol's indebtedness to the Banks remains outstanding, to retain its share ownership in Cigol and that N & C will ensure that the affairs of Cigol are conducted in a business-like manner with the aim that Cigol will always be in a position to meet its financial obligations. Cigol will covenant with the Banks that, so long as the loan is outstanding, Cigol will maintain a consolidated tangible net worth of at least \$80,000,000 and, subsequent to the reorganization becoming effective, Norcen will maintain a consolidated tangible net worth of at least \$150,000,000. In addition, Cigol will covenant not to permit Great Plains to sell or encumber its assets except in the ordinary course of business, or to make certain loans, investments or guarantees, without obtaining the Banks' consent. Upon the reorganization becoming effective, Norcen will undertake with the Banks not to encumber, sell, transfer or otherwise dispose of its shares of N & C without obtaining their consent.

Cigol's acquisition of the Great Plains shares is on the basis that, in the event that the reorganization is not effected, N & C would have the right to acquire 22% of the shares of Great Plains purchased by Cigol for an amount equal to 22% of Cigol's aggregate acquisition cost. Such right would result in N & C shareholders, directly and through Cigol, having an interest in Great Plains comparable to that which they would have if the reorganization had been effected. N & C has not yet determined whether it will exercise such right if the reorganization is not effected; if N & C determines to exercise the right, N & C must do so within 30 days after it becomes clear that the reorganization will not be proceeded with. In the event that the right is exercised by N & C, N & C would in all likelihood be required to finance the acquisition of the Great Plains shares by the issuance of debt or shares.

The Great Plains acquisition does not require shareholder approval.

PROXY SOLICITATION AND VOTING OF SHARES

Solicitation of Proxies

As already stated, this Information Circular and Proxy Statement is furnished in connection with the solicitation of proxies by the management of N & C for use at meetings called for February 27, 1975, of the holders of the Common Shares, the Second Preference Shares and the Junior Preference Shares of N & C, and in connection with the solicitation of proxies by the management of Cigol for use at the special general meeting called for February 26, 1975, of the holders of the Common Shares of Cigol. It is expected that the solicitations of proxies for such meetings will be primarily by mail, but proxies may also be solicited personally by Directors or regular employees of N & C or of Cigol. All expenses in connection with the solicitation of proxies from shareholders for use at the N & C meetings will be borne by N & C and all expenses in connection with the solicitation of proxies from shareholders for use at the Cigol meeting will be borne by Cigol.

Appointment and Revocation of Proxies

If the enclosed form of proxy is for use at one of the N & C meetings, the persons named therein to represent the shareholder are Directors of N & C; if the enclosed form of proxy is for use at the Cigol meeting, the persons named therein to represent the shareholder are Directors of Cigol. A shareholder has the right to appoint some other person to represent him at the particular meeting, and the shareholder may exercise such right by inserting such other person's name in the blank space provided for that purpose in the form of proxy or by completing another proxy in proper form. A person so appointed to represent a shareholder at the meeting need not himself be a shareholder.

To be voted at a meeting of N & C, a proxy must be received by the Secretary of N & C at or prior to the meeting; to be voted at the meeting of Cigol, a proxy must be received by the Secretary of Cigol not less than 24 hours before the time fixed for the commencement of the meeting.

A shareholder who has given a proxy may revoke it, as to any matter on which a vote has not already been cast pursuant to the authority conferred by it, by completing another proxy bearing a later date or signing a written revocation of proxy and by depositing such other proxy within the prescribed time limit or such instrument of revocation with the Secretary of N & C or Cigol, as the case may be, or with the chairman of the particular meeting.

Voting of Proxies

The persons named in the enclosed form of proxy will, if it is duly completed and timely deposited, vote all shares in respect of which they are appointed to act and they will vote such shares in accordance with any specification made therein. In the absence of any such specification by a shareholder, the persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed to act in favour of the proposed reorganization and, in particular, in the case of any of the N & C meetings, in favour of the proposed arrangement by N & C and, in the case of the Cigol meeting, in favour of the proposed amalgamation of Cigol and Newco.

The proxy for any meeting confers discretionary authority upon the persons named therein with respect to amendments or variations to the matters identified in the notice of the meeting and with respect to any other matters which may properly come before the meeting.

Neither the management of N & C nor the management of Cigol knows of any matters to come before any of the meetings other than the matters referred to in the notices thereof. If any matters which are not now known should properly come before any meeting, the persons named in the proxies solicited by management for use at such meeting will vote on such matters in accordance with their best judgment.

Voting of Shares and Principal Holders

With respect to each meeting of shareholders, all persons who are shareholders of record at the time of the holding of the meeting and are present in person or represented by proxy timely deposited at the meeting will be entitled on a poll to one vote for each share held. There were outstanding as of January 6, 1975,

13,420,392 Common Shares of N & C, 1,252,320 Second Preference Shares of N & C, 1,500,000 Junior Preference Shares of N & C, and 21,644,128 Common Shares of Cigol.

The arrangement must be agreed to and adopted at a separate meeting called for such purpose of the holders of each class of shares of N & C (other than the First Preference Shares), and at each such meeting the arrangement must be approved by the votes of the holders of at least 75% of the shares represented. The amalgamation must be adopted by at least 75% of the votes cast by the Common Shareholders of Cigol at the meeting called for such purpose. A quorum at each of the meetings will consist of shareholders present in person or represented by proxy holding not less than 25% of the shares entitled to be voted at the meeting.

The only person or company that, to the knowledge of the Directors or Senior Officers of N & C and Cigol, beneficially owns, directly or indirectly, more than 10% of the Common Shares of Cigol is N & C, which beneficially owns 13,112,529 Common Shares of Cigol or approximately 61% of the total number of Common Shares outstanding. Upon the reorganization becoming effective, the only person or company that, to the knowledge of the Directors or Senior Officers of N & C and Cigol, will beneficially own, directly or indirectly, more than 10% of the outstanding voting shares of all classes of Norcen will be Caisse de Dépôt et Placement du Québec which (on the basis of the N & C and Cigol shares outstanding on January 6, 1975) will own 2,508,230 Common Shares of Norcen, or approximately 11.3% of the outstanding voting shares of all classes; Raymond Lavoie, a Director of N & C and a prospective Director of Norcen, is a Director of Caisse de Dépôt et Placement du Québec.

United States Shareholders

N & C, Cigol, Newco and Norcen, most of their Officers and Directors, and certain experts named herein, are or will be residents of Canada, and most of their properties are or will be located outside of the United States. As a result, it may be difficult for shareholders to effect service within the United States upon those persons or to realize against them judgments of courts of the United States predicated upon civil liabilities under the United States securities acts. N & C, Cigol and Newco have been advised by their Canadian counsel that there is doubt as to the enforceability in Canada against any of these persons in original actions or in actions for enforcement of judgments of United States courts of liabilities predicated solely upon the United States securities acts.

DIVIDENDS

The following table shows the dividends per share paid and payable on N & C and Cigol Common Shares for the periods indicated:

<u>Year</u>	<u>Dividends per Common Share N & C</u>	<u>Cigol</u>
1970.....	\$0.60	—
1971.....	0.60	—
1972.....	0.60	—
1973.....	0.60	\$0.10
1974 First Quarter.....	0.15	—
Second Quarter.....	0.15	—
Third Quarter.....	0.15	0.15
Fourth Quarter.....	0.15	—
1975 First Quarter.....	0.17	—
(payable March 1, 1975 to holders of record February 14, 1975)		

It is a condition of the reorganization that neither N & C nor Cigol will declare or pay any extraordinary dividend, or dividend payable in shares, prior to completion of the reorganization without the consent of Cigol and Newco.

The prospective Directors of Norcen have informally determined that Norcen will adopt a policy of paying quarterly dividends on the Common Shares of Norcen and that, subject to declaration by the Board of Directors of Norcen, the initial quarterly dividend will be 17¢ per share, equal to the amount of N & C's Common Share dividend for the first quarter of 1975.

MARKET PRICES

The following table shows sales prices of N & C Common, Second Preference and Junior Preference Shares and Cigol Common Shares on The Toronto Stock Exchange for the periods and dates indicated:

	Cigol Common Shares		N & C Common Shares		N & C Second Preference Shares, Series A		N & C Second Preference Shares, Series B		N & C Junior Preference Shares, First Series	
	High	Low	High	Low	High	Low	High	Low	High	Low
1970.....	\$14.25	\$5.75	\$15.63	\$10.13	\$24.25	\$16.75	\$32.00	\$21.50	—	—
1971.....	12.75	8.63	17.00	12.75	27.00	21.00	35.00	27.00	—	—
1972.....	11.75	8.50	15.25	11.25	25.00	15.25	31.88	24.38	\$26.75	\$24.63
1973 First Quarter..	11.00	8.50	12.50	11.00	24.50	21.00	26.25	23.50	25.50	23.75
Second Quarter	8.88	6.63	11.38	9.00	21.00	21.00	24.25	22.00	24.50	20.75
Third Quarter.	9.00	6.63	10.13	9.13	21.00	21.00	23.00	21.25	22.38	20.50
Fourth Quarter	10.75	7.00	11.75	9.63	—	—	24.00	20.25	23.50	19.50
1974 First Quarter..	10.50	8.50	13.13	10.13	23.13	21.00	25.00	20.75	24.38	20.25
Second Quarter	9.75	6.25	11.88	10.38	21.00	21.00	22.50	19.75	22.00	19.25
Third Quarter.	7.50	4.25	10.50	8.63	21.00	21.00	20.50	16.63	19.88	16.25
Fourth Quarter	6.00	3.90	9.75	7.25	21.13	21.00	19.50	14.75	18.00	14.00
1975 First Quarter.. (through January 24)	6.88	5.63	11.00	8.50	21.00	21.00	22.00	16.00	20.75	15.75
	<u>Close</u>		<u>Close</u>		<u>Close</u>		<u>Close</u>		<u>Close</u>	
October 18, 1974(1)	4.80		9.50		21.13(2)		18.75		17.25	
December 10, 1974(3)	5.25		7.75		21.00(4)		16.25		16.13(5)	
January 24, 1975	6.88		10.88		21.00(6)		22.00		20.25	

- (1) Date on which the proposed reorganization was first publicly announced.
- (2) Closing bid (made by N & C); no sales on October 18, 1974. Last previous sale was on September 10, 1974 to N & C at \$21.00.
- (3) Date preceding announcement of the reorganization share exchange ratios.
- (4) Closing bid (made by N & C); no sales on December 10, 1974. Last previous sale was on November 19, 1974 to N & C at \$21.00.
- (5) Closing price on December 9, 1974; no sales on December 10, 1974.
- (6) Sale to N & C.

Trading volumes of the above-mentioned shares on The Toronto Stock Exchange during 1974 were as follows: Cigol Common Shares — 1,443,522; N & C Common Shares — 1,424,528; N & C Second Preference Shares, Series A — 1,025; N & C Second Preference Shares, Series B — 123,039; and N & C Junior Preference Shares, First Series — 158,309.

COMPARATIVE PER COMMON SHARE DATA

The following table sets forth historical and pro-forma data per Common Share based upon the financial statements of N & C and of Cigol appearing elsewhere in this Information Circular and Proxy Statement. Such data should be read in conjunction with the individual companies' consolidated financial statements and the pro-forma financial statements included elsewhere herein.

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
N & C							
Historical earnings (a) (b)							
Net income.....	\$.62	\$.69	\$.81	\$.84	\$.89	\$.46	\$.98
Fully diluted.....	.62	.69	.81	.84	.88	.46	.89
Pro-forma earnings giving effect to the acquisition of 100% of Great Plains before the reorganization (c) (d)							
Net income.....					.77	.36	.87
Fully diluted.....					.77	.36	.81
Pro-forma earnings giving effect to the reorganization but excluding the acquisition of Great Plains (e)							
Net income.....	.53	.61	.69	.72	.82	.46	.84
Fully diluted.....	.53	.61	.69	.72	.82	.46	.80
Pro-forma earnings giving effect to the reorganization and the acquisition of Great Plains (f)							
Net income.....					.68	.35	.70
Fully diluted.....					.68	.35	.69
Book value at end of period							
Historical.....							8.21
Pro-forma giving effect to the acquisition of 100% of Great Plains before the reorganization.....							8.21
Pro-forma giving effect to the reorganization but excluding the acquisition of Great Plains.....							7.35
Pro-forma giving effect to the reorganization and the acquisition of Great Plains.....							7.35
Cash dividends per Common Share.....	.575	.60	.60	.60	.60	.45	.45
Cigol							
Historical earnings (g)							
Net income (h).....	\$.28	\$.26	\$.28	\$.30	\$.46	\$.31	\$.35
Pro-forma earnings giving effect to the acquisition of 100% of Great Plains before the reorganization (d) (i).....					.34	.21	.23
Pro-forma combined earnings attributable to .7 of a Norcen Common Share							
—Giving effect to the reorganization but excluding the acquisition of Great Plains (j)							
Net income.....	.37	.43	.48	.50	.57	.32	.59
Fully diluted.....	.37	.43	.48	.50	.57	.32	.56
—Giving effect to the reorganization and the acquisition of Great Plains (k)							
Net income.....					.48	.25	.49
Fully diluted.....					.48	.25	.48
Book value at end of period							
Historical.....							3.78
Pro-forma giving effect to the acquisition of 100% of Great Plains before the reorganization (d)...							3.78
Pro-forma attributable to .7 of a Norcen Common Share							
—Giving effect to the reorganization but excluding the acquisition of Great Plains....							5.15
—Giving effect to the reorganization and the acquisition of Great Plains.....							5.15
Cash dividends per Common Share.....					.10	.025	.15

- (a) As restated. See Note 2 to the consolidated financial statements of N & C appearing elsewhere in this Information Circular and Proxy Statement.
- (b) Includes extraordinary loss of \$.02 per share in the nine months ended September 30, 1974.
- (c) Includes extraordinary loss of \$.10 per share (\$.07 per share on fully diluted basis) in the nine months ended September 30, 1974.
- (d) N & C has a right to acquire from Cigol 22% of the shares of Great Plains. See Note 3 to the pro-forma condensed statements of income of both N & C and Cigol giving effect to the acquisition by Cigol of Great Plains appearing elsewhere in this Information Circular and Proxy Statement.
- (e) Includes extraordinary loss of \$.06 per share (\$.05 per share on a fully diluted basis) in the nine months ended September 30, 1974.
- (f) Includes extraordinary loss of \$.16 per share (\$.13 per share on a fully diluted basis) in the nine months ended September 30, 1974.
- (g) As restated. See Note (b) to the consolidated statement of income of Cigol appearing elsewhere in this Information Circular and Proxy Statement.
- (h) Includes extraordinary gain of \$.03 per share in 1969 and extraordinary losses of \$.01 per share in 1972, and \$.11 per share in the nine months ended September 30, 1974.
- (i) Includes extraordinary loss of \$.20 per share in the nine months ended September 30, 1974.
- (j) Includes extraordinary loss of \$.04 per share (\$.03 per share on a fully diluted basis) in the nine months ended September 30, 1974.
- (k) Includes extraordinary loss of \$.11 per share (\$.09 per share on a fully diluted basis) in the nine months ended September 30, 1974.

CAPITALIZATION

The following table sets forth the capitalization, on a pro-forma basis and after giving effect to the acquisition of Great Plains, of Cigol and its subsidiaries, N & C and its subsidiaries, and Norcen and its subsidiaries on a consolidated basis after elimination of inter-company holdings:

	December 31, 1974		
	(in thousands of Canadian dollars)		
	Cigol	N & C (including Cigol)	Norcen
SHORT-TERM BORROWINGS (excluding current maturities)			
Commercial paper and unsecured income debentures		\$ 25,339	\$ 25,339
Bank loans of subsidiaries		4,090	4,090
		<u>\$ 29,429</u>	<u>\$ 29,429</u>
LONG-TERM DEBT AND BANK LOANS			
(including current maturities)			
N & C (1)			
5½%-8½% First Mortgage and Collateral Trust Bonds, 1975-1992		\$114,889	\$114,889
9½% Senior Debentures, 1991		50,000	50,000
Bank loans (2)		7,025	7,025
6% Notes and Subordinated Notes, 1975-1987		7,546	7,546
5¾%-9½% Subordinated Debentures, 1982-1991		52,505	52,505
		<u>231,965</u>	<u>231,965</u>
CIGOL (3)			
Bank loans (2)	\$ 32,492	32,492	32,492
5⅞%-9% First Mortgage Bonds, 1976-1993	11,428	11,428	11,428
6¼% Debentures, 1976	61	61	61
Other	4,336	4,336	4,336
Term bank loan to acquire Great Plains (4)	93,000	93,000	93,000
Interest-free loan of Great Plains (4)	2,233	2,233	2,233
	<u>143,550</u>	<u>143,550</u>	<u>143,550</u>
GREATER WINNIPEG GAS COMPANY (1)			
5¾%-6% First Mortgage Bonds, 1978-1984		17,375	17,375
6% Debenture, 1979		1,525	1,525
5½% Subordinated Debenture, 1980		900	900
		<u>19,800</u>	<u>19,800</u>
GAZ MÉTROPOLITAIN, INC. (1)			
5½%-7% First Mortgage Bonds, 1980-1990		27,874	27,874
6% General Mortgage Bonds, 1988-1989		10,260	10,260
5¾% Subordinated Debentures, 1985		15,493	15,493
		<u>53,627</u>	<u>53,627</u>
COLEMAN COLLIERIES LIMITED			
7½% Mortgage Loans, 1981		1,727	1,727
12% Debenture, 1981		660	660
Interest-free Note due 1981		1,835	1,835
Equipment Notes		1,588	1,588
		<u>5,810</u>	<u>5,810</u>
SUNDRY INDEBTEDNESS OF OTHER SUBSIDIARIES			
Mortgages		170	170
TOTAL LONG-TERM DEBT AND BANK LOANS (5)	<u>143,550</u>	<u>454,922</u>	<u>454,922</u>
MINORITY INTEREST IN SUBSIDIARIES (6)			
Preference Shares		15,419	23,546
Common Shares and retained earnings	2,010	43,300	11,022
	<u>2,010</u>	<u>58,719</u>	<u>34,568</u>

		December 31, 1974		
		(in thousands of Canadian dollars)		
	Number of Shares	Cigol	N & C (including Cigol)	Norcen
COMMITMENTS AND CAPITAL PROGRAM (7)				
SHARE CAPITAL (8)				
Cigol				
Common Shares without par value.....	21,644,128	\$ 29,283		
N & C				
First Preference Shares, par value of \$50 each				
—\$2.60 First Series.....	128,321		\$ 6,416	
—\$2.70 Second Series.....	34,218		1,711	
Second Preference Shares, par value of \$25 each				
—\$1.06 Series A.....	7,203		180	
—\$1.50 Series B.....	1,245,117		31,128	
Junior Preference Shares, par value of \$25 each				
—\$1.50 First Series.....	1,500,000		37,500	
Common Shares without par value.....	13,420,392		78,959	
Norcen				
First Preference Shares, par value of \$25 each				
—\$1.06 Series A.....	7,203			\$ 180
—\$1.50 Series B.....	1,245,117			31,128
Junior Preference Shares, par value of \$25 each				
—\$1.50 First Series.....	1,500,000			37,500
Common Shares without par value.....	19,392,511			90,501
CONTRIBUTED SURPLUS.....		173		69
RETAINED EARNINGS (9).....		52,431	31,255	51,922
TOTAL SHAREHOLDERS' EQUITY.....		81,887	187,149	211,300
TOTAL CAPITALIZATION.....		\$227,447	\$700,790	\$700,790

- (1) Substantially all of the utility assets are subject to first mortgage liens under the trust indentures securing the outstanding First Mortgage and Collateral Trust Bonds and First Mortgage Bonds. The bank loans and all long-term indebtedness of N & C other than the First Mortgage and Collateral Trust Bonds are unsecured. The Subordinated Notes and Subordinated Debentures of N & C are subordinated to the First Mortgage and Collateral Trust Bonds, to the Senior Debentures and to the bank loans.
- (2) Bearing interest at rates generally between the prime rate of the lending bank and $\frac{1}{2}\%$ above such rate (weighted average interest rate at September 30, 1974 was 11.9%). N & C and its subsidiaries had unused lines of credit of \$23,021,000 as at December 31, 1974 (Cigol—\$10,625,000). Reference is made to Note 7 to the consolidated financial statements of N & C and Note 4 to the consolidated financial statements of Cigol for information with respect to the terms of and security for bank loans.
- (3) Approximately 40% of the producing properties of Cigol are subject to first mortgage loans securing outstanding bonds or have been assigned as security for demand and other bank loans.
- (4) This debt will be eliminated if the proposed acquisition of Great Plains is not consummated. Reference is made to Note 1 to the pro-forma condensed balance sheet of N & C giving effect to the acquisition by Cigol of Great Plains for information with respect to terms, interest rate and security of the term bank loan.

- (5) Securities issued in United States funds are included above at their Canadian dollar equivalents at their respective dates of issue.
- (6) Minority interest in subsidiaries as at December 31, 1974 is based upon the financial statements of N & C and its subsidiaries as at September 30, 1974.
- (7) Reference is made to Note 10 to the consolidated financial statements of N & C and Note 10 to the consolidated financial statements of Cigol for information regarding the companies' commitments and contingent liabilities and N & C's capital program as at September 30, 1974.
- (8) Does not include Common Shares reserved at December 31, 1974 as follows:

	<u>Cigol</u>	<u>N & C</u>	<u>Norcen</u>
Under employees' share purchase plan.....	—	15,065	—
Conversion of notes payable.....	287,291	—	201,104
Warrants.....	—	801,306	801,306(a)
For incentive stock option plan			
—options outstanding.....	161,800	400,500	113,260(b)
—for future grant.....	—	30,204	—

(a) Assuming exchange of N & C warrants for warrants of Norcen.

(b) It is expected that 650,000 Common Shares of Norcen will be reserved for issue under an Incentive Stock Option Plan. Options granted under the Plan, it is anticipated, will not be exercisable by any person holding N & C options unless the optionee first surrenders for cancellation all of his N & C options. (See "Proposed Incentive Stock Option Plan of Norcen" included elsewhere in this Information Circular and Proxy Statement.)

Reference is made to Note 11 to the consolidated financial statements of N & C and Note 6 to the consolidated financial statements of Cigol for further details.

- (9) Retained earnings are stated as at September 30, 1974. Reference is also made to Note 12 to the consolidated financial statements of N & C, Note 7 to the consolidated financial statements of Cigol, and Note 2 to the pro-forma condensed balance sheet of Norcen giving effect to the proposed reorganization as to details of dividend restrictions as at September 30, 1974.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF INCOME

(in thousands of Canadian dollars)

The following consolidated statement of income of Northern and Central Gas Corporation Limited ("N & C") and its subsidiaries for the five years ended December 31, 1973, has been examined by Riddell, Stead & Co., independent chartered accountants, whose opinion appears elsewhere in this Information Circular and Proxy Statement. The consolidated statement of income for the five years ended December 31, 1973 has been restated from that previously reported to give effect to the matters described in Note (b). The statement of income for the nine-month periods ended September 30, 1973 and 1974 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) which N & C considers necessary for a fair presentation of the results of operations for the periods. The results of operations for the nine months ended September 30, 1974 are not necessarily indicative of the results for the full fiscal year. The consolidated statement of income should be read in conjunction with the other consolidated financial statements of N & C and its subsidiaries and the notes thereto appearing elsewhere in this Information Circular and Proxy Statement.

	Year Ended December 31,					Nine Months Ended September 30, 1974	
	1969	1970	1971	1972	1973	1973	1974
	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b)) (unaudited)	(unaudited)
REVENUE (a)							
Gas utilities.....	\$132,771	\$149,338	\$162,169	\$170,557	\$188,591	\$132,222	\$164,089
Oil and gas exploration and production...	34,424	33,196	41,271	47,432	58,964	39,974	57,238
Coal.....	—	—	12,357	12,775	15,395	11,079	17,687
	<u>167,195</u>	<u>182,534</u>	<u>215,797</u>	<u>230,764</u>	<u>262,950</u>	<u>183,275</u>	<u>239,014</u>
COSTS AND EXPENSES (a)							
Gas purchases.....	75,451	84,142	92,079	100,341	114,008	77,102	105,438
Production, operations and maintenance..	33,593	37,020	53,928	55,527	64,658	45,948	55,406
Depreciation and depletion.....	16,219	15,645	18,018	20,010	23,181	17,431	18,838
Amortization of financing expenses.....	577	464	569	469	489	362	346
Taxes, other than income taxes.....	4,761	5,076	5,337	5,327	5,053	4,026	4,092
Income taxes (c)—current.....	2,145	718	568	1,126	827	822	2,576
—deferred.....	2,161	3,517	4,085	4,650	6,042	4,299	8,013
Interest—long-term debt.....	14,298	17,722	23,307	22,530	24,489	18,680	19,468
—other.....	4,659	3,557	1,347	2,329	1,844	1,063	1,872
Interest charged to construction.....	(1,114)	(69)	(99)	(583)	(41)	(28)	(103)
	<u>152,750</u>	<u>167,792</u>	<u>199,139</u>	<u>211,726</u>	<u>240,550</u>	<u>169,705</u>	<u>215,946</u>
Income (loss) before deduction of minority interests in subsidiaries, income (loss) prior to date of acquisition, and extraordinary items							
Gas utilities.....	8,413	9,482	11,351	13,043	12,706	6,936	11,849
Oil and gas exploration and production...	6,032	5,260	5,783	6,448	9,983	6,841	10,077
Coal.....	—	—	(476)	(453)	(289)	(207)	1,142
	<u>14,445</u>	<u>14,742</u>	<u>16,658</u>	<u>19,038</u>	<u>22,400</u>	<u>13,570</u>	<u>23,068</u>
Minority interests in subsidiaries.....	2,896	2,859	3,742	4,172	5,843	3,851	6,132
Income (loss) prior to date of acquisition of subsidiaries acquired during the period (a).	971	—	(621)	—	—	—	—
	<u>3,867</u>	<u>2,859</u>	<u>3,121</u>	<u>4,172</u>	<u>5,843</u>	<u>3,851</u>	<u>6,132</u>
Income (loss) before extraordinary items (a) (b)							
Gas utilities.....	6,818	8,463	9,754	11,267	10,754	5,811	10,041
Oil and gas exploration and production...	3,760	3,420	3,664	3,970	6,040	4,078	6,028
Coal.....	—	—	119	(371)	(237)	(170)	867
	<u>10,578</u>	<u>11,883</u>	<u>13,537</u>	<u>14,866</u>	<u>16,557</u>	<u>9,719</u>	<u>16,936</u>
INCOME BEFORE EXTRAORDINARY ITEMS							
EXTRAORDINARY ITEMS							
Writedown of a subsidiary's investment (net of deferred income taxes), after minority interest.....	—	—	—	—	—	—	(1,414)
Reduction in a subsidiary's income taxes resulting from application of prior years' tax losses, after minority interest.....	—	—	—	—	—	—	1,138
NET INCOME (f)	<u>10,578</u>	<u>11,883</u>	<u>13,537</u>	<u>14,866</u>	<u>16,557</u>	<u>9,719</u>	<u>16,660</u>
Dividend requirements on preference shares.....	2,779	2,716	2,629	3,604	4,635	3,484	3,444
NET INCOME APPLICABLE TO COMMON SHARES	<u>\$ 7,799</u>	<u>\$ 9,167</u>	<u>\$ 10,908</u>	<u>\$ 11,262</u>	<u>\$ 11,922</u>	<u>\$ 6,235</u>	<u>\$ 13,216</u>
Weighted average number of Common Shares ('000's omitted).....	<u>12,088</u>	<u>12,783</u>	<u>13,314</u>	<u>13,435</u>	<u>13,426</u>	<u>13,425</u>	<u>13,437</u>
Earnings per Common Share (d)							
—before extraordinary items.....	\$.62	\$.69	\$.81	\$.84	\$.89	\$.46	\$1.00
—net income.....	\$.62	\$.69	\$.81	\$.84	\$.89	\$.46	\$.98
Fully diluted earnings per Common Share (d)							
—before extraordinary items.....	\$.62	\$.69	\$.81	\$.84	\$.88	\$.46	\$.91
—net income.....	\$.62	\$.69	\$.81	\$.84	\$.88	\$.46	\$.89
Dividends per Common Share (e)	<u>\$.575</u>	<u>\$.60</u>	<u>\$.60</u>	<u>\$.60</u>	<u>\$.60</u>	<u>\$.45</u>	<u>\$.45</u>

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

NOTES TO CONSOLIDATED STATEMENT OF INCOME

(tabular amounts shown in thousands of Canadian dollars)

(Information for the nine-month periods ended September 30, 1973
and September 30, 1974 is unaudited.)

(a) The consolidated statement of income indicates the three significant lines of business, namely, gas utilities, oil and gas exploration and production, and coal. Revenues and expenses of all subsidiaries acquired during the period are included from the beginning of the year of acquisition, but net income prior to the date of acquisition has been deducted in arriving at consolidated net income. Pre-acquisition revenues of \$4,569,000 in 1969 and \$8,162,000 in 1971 are included in consolidated totals.

Reference is made to Notes 1, 5 and 6 to the consolidated financial statements of N & C for information as to consolidation and accounting policies.

(b) Consolidated net income as previously reported has been restated for the following:

Gas Utilities

- (i) Adjustment of prior years' depreciation charge resulting from an order of the Ontario Energy Board in 1971.
- (ii) Income tax recovery.

Oil and Gas Exploration and Production

- (iii) Retroactive adoption of the tax allocation method of accounting (as more fully explained in Note (c)).
- (iv) Re-assessment of income taxes of subsidiaries.

Coal

- (v) Retroactive adjustment to restate 1972 coal operations. See Note 2 to the consolidated financial statements of N & C.

	Year Ended December 31,					Nine Months Ended
	1969	1970	1971	1972	1973	September 30, 1973
Net income applicable to Common Shares, as previously reported.....	\$ 9,496	\$11,402	\$13,229	\$14,035	\$15,364	\$ 8,771
Adjustments						
(i) depreciation.....	(267)	(195)	—	—	—	—
(ii) income tax recovery.....	—	—	—	136	—	—
(iii) deferred income taxes.....	(2,118)	(3,408)	(3,935)	(4,407)	(5,798)	(4,240)
(iv) income tax re-assessments.....	(275)	(81)	—	—	—	—
(v) restatement of 1972 coal operations.....	—	—	—	(365)	—	—
Minority interest in above items.....	963	1,449	1,614	1,863	2,356	1,704
	(1,697)	(2,235)	(2,321)	(2,773)	(3,442)	(2,536)
Net income applicable to Common Shares, as restated per consolidated statement of income....	\$ 7,799	\$ 9,167	\$10,908	\$11,262	\$11,922	\$ 6,235
Earnings per share						
—as previously reported.....	\$.79	\$.89	\$.99	\$1.04	\$1.14	\$.65
—as restated.....	\$.62	\$.69	\$.81	\$.84	\$.89	\$.46

Gas utility revenues for 1969, 1970 and 1971 have been restated to include coke and by-product sales previously netted in production, operations and maintenance.

(c) Income Taxes

	Year Ended December 31, 1973			Nine Months Ended September 30, 1974		
	Current	Deferred	Total	Current	Deferred	Total
Gas utilities (i).....	\$784	\$ —	\$ 784	\$1,180	\$ —	\$1,180
Oil and gas exploration and production (ii).....	43	6,042	6,085	1,396	5,456	6,852
Coal (iii).....	—	—	—	—	1,391	1,391
	<u>\$827</u>	<u>\$6,042</u>	<u>\$6,869</u>	<u>\$2,576</u>	<u>\$6,847*</u>	<u>\$9,423</u>

*Net of \$1,166,000 applicable to extraordinary items and the reduction of \$1,138,000 in a subsidiary's income taxes resulting from application of prior years' tax losses.

(i) *Gas Utilities*

The companies' rates and revenues, established for regulatory purposes, include recovery of income taxes currently payable; accordingly, the companies provide income taxes on this basis and do not provide for income taxes which may be payable in future years as a result of current differences in timing of deductions, principally in respect of depreciation and amortization, for financial reporting and income tax purposes. Such income taxes not provided and not recovered in revenues amounted, before applicable minority interests, to the following:

	Total
Prior to 1969.....	\$ 23,800
1969.....	4,100
1970.....	4,300
1971.....	5,000
1972.....	5,800
1973.....	5,900
In total to December 31, 1973.....	48,900
Nine months ended September 30, 1974.....	6,000
In total to September 30, 1974.....	<u>\$ 54,900</u>

Total income tax expense amounted to \$784,000 for the year ended December 31, 1973 and \$1,180,000 for the nine months ended September 30, 1974, which amounts are less than the tax of \$6,475,000 for 1973 and \$6,254,000 for the nine months ended September 30, 1974 respectively, which would result from applying the Canadian federal tax rate for gas utilities (48% for 1973 and 1974 before deduction of the 10% abatement in respect of provincial income taxes) to income before taxes and minority interest of \$13,490,000 in 1973 and \$13,029,000 in the nine months ended September 30, 1974. The reasons for these differences are as follows:

	Year Ended December 31, 1973		Nine Months Ended September 30, 1974	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Tax based on Canadian federal tax rate.....	\$ 6,475	48.0%	\$6,254	48.0%
Increases (reductions) in income tax result from:				
Tax-exempt income.....	(460)	(3.4)	(330)	(2.5)
Non-deductible items.....	330	2.4	883	6.8
Provincial taxes in excess of federal abatment.....	300	2.2	333	2.5
Excess of tax over book depreciation.....	(6,236)	(46.2)	(5,879)	(45.1)
Deferred charges claimed for tax purposes in year incurred.....	375	2.8	(81)	(.6)
Actual tax expense.....	<u>\$ 784</u>	<u>5.8%</u>	<u>\$1,180</u>	<u>9.1%</u>

(ii) *Oil and gas exploration and production*

The change in accounting for income taxes, as explained in Note (d) to the consolidated statement of income of Canadian Industrial Gas & Oil Ltd. ("Cigol"), had the effect of decreasing the company's consolidated net income for the nine months ended September 30, 1974 by \$3,039,000 (\$.23 per share). See Note (d) to the consolidated statement of income of Cigol for further details.

Total income tax expense for the nine months ended September 30, 1974 includes the effect of the income tax changes proposed in the budget dated November 18, 1974 by the Minister of Finance of Canada with effect from May 6, 1974 and in the announced "Alberta Petroleum Exploration Plan of December 1974". These proposed income tax changes have not yet been passed by the respective parliamentary bodies. The net effect of the changes on net income for the nine months ended September 30, 1974 has been to reduce such income by approximately \$376,000 (\$.03 per share). See "Business and Properties of Cigol—Recent Government Policy" for further details of the proposed legislation.

(iii) *Coal*

At September 30, 1974 the undepreciated cost of the coal properties for income tax purposes exceeded their net book value by approximately \$2,807,000. This excess is available for application against otherwise taxable income in ensuing years. The realization of this potential tax saving is dependent upon future profitable operations and, accordingly, such benefit has been recognized only to the extent required to offset otherwise taxable income to September 30, 1974.

- (d) Earnings per Common Share were computed by dividing the net income applicable to Common Shares by the weighted average number of Common Shares and Common Equivalent Shares outstanding during the year. The convertible Preference Shares have not been considered the equivalent of Common Shares. The number of Common Shares was increased by the number of shares issuable on the exercise of warrants and options (considered to be Common Equivalent Shares) and decreased by the number of Common Shares assumed to have been purchased with the proceeds from the exercise of warrants. These purchases were assumed to have been made at the average market price of the Common Shares during the relevant years.

Fully diluted earnings per Common Share were computed by dividing the net income applicable to Common Shares by the weighted average number of Common Shares and Common Equivalent Shares outstanding adjusted to reflect the assumptions that Convertible Preference Shares would be converted as at the beginning of a year and that warrants and options outstanding at the end of a year would be exercised at the beginning of that year. Purchases of Common Shares from the proceeds from exercise of warrants and options were assumed to have been made at the greater of the average price for, or the price at the end of, the year in question.

- (e) Dividends per share are based on the number of shares outstanding at the date of record.
- (f) N & C follows Canadian accounting practices which are different in some aspects from those applicable in the United States. These differences can be summarized as follows:
- (i) The cumulative effect of changes in 1972 coal operating results (reference is made to Note 2 to the consolidated financial statements of N & C) would, under United States methods, have been reflected as a "cumulative effect adjustment" in the amount of \$299,000 (\$.02 per share) in 1974, the year of change.
 - (ii) During 1973 costs relating to a proposed financing were written off to contributed surplus and retained earnings. Under United States accounting practices these costs would have been charged to earnings and 1973 consolidated net income would have been reduced by \$474,000 (\$.04 per share).
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF N & C's CONSOLIDATED STATEMENT OF INCOME

Revenue

Gas utilities

Gas utility revenue increased \$8,388,000 in 1972, \$18,034,000 in 1973 and \$31,867,000 in the nine months ended September 30, 1974 compared to the corresponding prior periods. Increases in gas revenues of \$11,466,000 in 1972, \$13,502,000 in 1973 and \$28,292,000 in the nine months ended September 30, 1974 reflect increased volumes of 12,612 mmcf in 1972, 9,918 mmcf in 1973 and 18,711 mmcf in the nine months ended September 30, 1974 which were occasioned both by the growth of the areas served by N & C's utility divisions and by the price advantage of gas over alternative energy sources. The average sales price per mcf increased \$.012 in 1972, \$.029 in 1973 and \$.083 in the nine months ended September 30, 1974 primarily to compensate for increased costs of gas.

The operations of N & C's utility divisions are seasonal in that approximately 60% of revenues generated are earned in the six months January 1 to March 31, and October 1 to December 31.

Coke and by-product sales decreased \$2,061,000 in 1972, and increased \$3,930,000 in 1973 and \$2,983,000 for the nine months ended September 30, 1974 reflecting fluctuations in price, yield and demand. Service, rental and interest revenues accounted for the balance of the changes in gas utility revenues.

Oil and gas exploration and production

See "Management's Discussion and Analysis of Cigol's Consolidated Statement of Income".

Coal

Coal revenue increased \$2,620,000 in 1973 and \$6,608,000 for the nine months ended September 30, 1974 compared to the corresponding prior periods. The increases were the result of increased sales of 62,970 tons in 1973 and an increase in average selling price of \$2.16 per ton in 1973 and \$9.23 per ton in the nine months ended September 30, 1974.

Costs and Expenses

The utility divisions' gas purchases increased \$5,055,000 in 1972, \$9,694,000 in 1973 and \$28,336,000 in the nine months ended September 30, 1974 compared to the corresponding prior periods. Increases are attributable to increased sales volumes as discussed above together with an increase in average cost price per mcf of \$.029 in 1973 and \$.077 in the nine months ended September 30, 1974, resulting from rate increases granted to the supplier.

Production, operations and maintenance

	Year Ended December 31,		Nine Months Ended September 30,	
	1972	1973	1973	1974
Gas utilities (i)	\$32,142,000	\$39,268,000	\$28,247,000	\$31,651,000
Oil and gas exploration and production (ii)	12,511,000	13,917,000	9,863,000	11,942,000
Coal (iii)	10,874,000	11,473,000	7,838,000	11,813,000
Per consolidated statement of income	\$55,527,000	\$64,658,000	\$45,948,000	\$55,406,000

(i) The increases of \$7,126,000 in 1973 and \$3,404,000 in the nine months ended September 30, 1974 reflect primarily the impact of inflation, increased cost of coke sales to sustain higher volumes (accounting for \$3,283,000 of the increase in 1973), and a greater demand for the divisions' service facilities.

(ii) See "Management's Discussion and Analysis of Cigol's Consolidated Statement of Income".

(iii) Expenses increased \$599,000 in 1973 and a further \$3,975,000 in the nine-month period ending September 30, 1974. Mining operations concentrated on labour-intensive underground mine development in 1973 and 1974. The scheduled wage increase in the collective bargaining agreement accounts for 32% of this 1973 increase. The re-negotiation of the labour agreement in 1974 accounted for 42% of the 1974 increase in expenses.

Increases in the amounts of depreciation and depletion reflect depreciation provisions arising from additional capital expenditures, increased depletion rates (see "Management's Discussion and Analysis of Cigol's Consolidated Statement of Income") and changes in the method of amortization of coal properties (see Note 5 to the consolidated financial statements of N & C).

Interest-other expense increased \$982,000 in 1972, decreased \$485,000 in 1973 and increased \$809,000 in the nine months ended September 30, 1974 reflecting increases and decreases in N & C's requirement for short-term borrowings together with changes in interest rates. See Note 7 to the consolidated financial statements of N & C.

CANADIAN INDUSTRIAL GAS & OIL LTD.

CONSOLIDATED STATEMENT OF INCOME

(in thousands of Canadian dollars)

The following consolidated statement of income of Canadian Industrial Gas & Oil Ltd. ("Cigol") and its subsidiaries for the five years ended December 31, 1973, has been examined by Riddell, Stead & Co., independent chartered accountants, whose opinion thereon appears elsewhere in this Information Circular and Proxy Statement. The consolidated statement of income for the five years ended December 31, 1973 has been restated from that previously reported to give effect to those matters described in Note (b). The consolidated statement of income for the nine-month periods ended September 30, 1973 and 1974 has not been audited; however, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to the fair statement of the results of such periods have been made. The results of operations for the nine months ended September 30, 1974 are not necessarily indicative of the operating results for the full fiscal year. The consolidated statement of income should be read in conjunction with the other consolidated financial statements of Cigol and its subsidiaries and the notes thereto appearing elsewhere in this Information Circular and Proxy Statement.

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b)) (unaudited)	(unaudited)
REVENUE (b)							
Sales, service and other operating revenue (c).....	\$ 33,886	\$ 32,999	\$ 41,144	\$ 47,011	\$ 58,335	\$ 39,550	\$ 56,763
Interest and other income.....	288	817	942	421	629	421	473
	<u>34,174</u>	<u>33,816</u>	<u>42,086</u>	<u>47,432</u>	<u>58,964</u>	<u>39,971</u>	<u>57,236</u>
COSTS AND EXPENSES							
Gas and other merchandise purchased.	7,017	7,273	11,077	13,273	17,246	10,479	16,643
Selling, operating and administrative expenses (c).....	8,931	8,984	11,388	12,511	13,917	9,863	11,939
Interest, principally on bank loans and long-term debt.....	1,427	2,011	2,034	2,026	2,370	1,732	3,045
Depletion (c).....	5,026	3,297	3,986	4,868	5,615	3,838	4,555
Depreciation.....	2,770	2,741	3,056	3,277	3,748	2,819	2,959
Minority interests.....	125	160	161	37	68	132	125
	<u>25,296</u>	<u>24,466</u>	<u>31,702</u>	<u>35,992</u>	<u>42,964</u>	<u>28,863</u>	<u>39,266</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS.....	8,878	9,350	10,384	11,440	16,000	11,108	17,970
Income taxes (d)—current.....	1,457	371	241	73	43	100	1,396
—deferred.....	2,172	3,517	4,085	4,650	6,042	4,299	6,621
	<u>3,629</u>	<u>3,888</u>	<u>4,326</u>	<u>4,723</u>	<u>6,085</u>	<u>4,399</u>	<u>8,017</u>
INCOME BEFORE EXTRAORDINARY ITEMS.	5,249	5,462	6,058	6,717	9,915	6,709	9,953
Writedown of investment, net of deferred income taxes of \$1,166 (e)...	—	—	—	—	—	—	(2,334)
Gain on disposal of investments.....	597	85	—	—	—	—	—
Loss on abandonment of propane storage facilities.....	—	—	—	(306)	—	—	—
	<u>597</u>	<u>85</u>	<u>—</u>	<u>(306)</u>	<u>—</u>	<u>—</u>	<u>(2,334)</u>
NET INCOME (f).....	<u>\$ 5,846</u>	<u>\$ 5,547</u>	<u>\$ 6,058</u>	<u>\$ 6,411</u>	<u>\$ 9,915</u>	<u>\$ 6,709</u>	<u>\$ 7,619</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000's omitted).....	20,490	20,742	21,018	21,185	21,490	21,438	21,644
EARNINGS PER COMMON SHARE (g)							
Income before extraordinary items....	\$.25	\$.26	\$.28	\$.31	\$.46	\$.31	\$.46
Net income.....	\$.28	\$.26	\$.28	\$.30	\$.46	\$.31	\$.35
DIVIDENDS PER COMMON SHARE (h)....	\$ —	\$ —	\$ —	\$ —	\$.10	\$.025	\$.15

CANADIAN INDUSTRIAL GAS & OIL LTD.

NOTES TO CONSOLIDATED STATEMENT OF INCOME

(tabular amounts shown in thousands of Canadian dollars)

(Information for the nine-month periods ended September 30, 1973 and September 30, 1974 is unaudited.)

(a) Reference is made to Notes 1 and 3 to the consolidated financial statements of Cigol and subsidiaries for information as to consolidation and accounting policies.

(b) The following sets forth consolidated revenue as previously reported compared to consolidated revenue restated to include pooled corporations:

	1969	1970
Previously reported.....	\$33,828	\$33,369
Restated on pooling basis.....	\$34,174	\$33,816

Consolidated net income has been restated from amounts previously reported to include pooled corporations, to give retroactive effect to the change in accounting for income taxes as described in Note (d) below and to reflect re-assessments of income taxes of subsidiaries as follows:

	Year Ended December 31,					Nine Months Ended September 30, 1973
	1969	1970	1971	1972	1973	
Net income, as previously reported.....	\$ 8,238	\$ 8,643	\$ 9,889	\$10,720	\$15,596	\$10,863
Adjustments						
(i) to include pooled corporations.....	(50)	269	—	—	—	—
(ii) retroactive adoption of tax allocation accounting						
—deferred income taxes.....	(2,118)	(3,408)	(3,935)	(4,407)	(5,798)	(4,240)
—less portion applicable to minority interests..	51	124	104	98	117	86
(iii) income tax re-assessments of subsidiaries.....	(275)	(81)	—	—	—	—
Net income, as restated, as per consolidated statement of income.....	\$ 5,846	\$ 5,547	\$ 6,058	\$ 6,411	\$ 9,915	\$ 6,709
Earnings per share						
—as previously reported.....	\$.41	\$.43	\$.47	\$.50	\$.72	\$.50
—as restated.....	\$.28	\$.26	\$.28	\$.30	\$.46	\$.31

(c) In 1969, revenue, operating expenses and depletion included amounts of approximately \$2,440,000, \$242,000 and \$2,150,000, respectively, all with respect to a production sub-lease which expired in December 1969. There were no similar revenues nor related expenses in any other period during the five years and nine months ended September 30, 1974.

(d) For income tax purposes, the companies claim drilling, exploration and lease acquisition costs and capital cost allowances in excess of the related amounts reflected in the accounts. As a result income taxes have been payable only on the income of certain of Cigol's subsidiaries, while no income taxes have been payable in respect of the income reported for the other companies.

Prior to January 1, 1974 deferred income taxes had been recorded only in the accounts of certain of Cigol's subsidiaries, while the other companies had provided only for the taxes payable on their taxable income for the year.

During 1974, at the request of the Canadian provincial securities administrators, Cigol and all subsidiaries adopted, with retroactive effect, the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. Under this method the companies provide for deferred income taxes to the extent that income taxes otherwise payable are reduced by claiming exploration and development costs and capital cost allowances in excess of the depletion and depreciation provisions reflected in their accounts.

This retroactive change in accounting resulted in a decrease in consolidated net income for the five years ended December 31, 1973 from that previously reported as described in Note (b) above. Consolidated net income for the nine months ended September 30, 1974 was reduced by \$5,017,000 (\$.23 per share).

Total income tax expense amounted to \$6,085,000 for the year ended December 31, 1973 and \$6,851,000 for the nine months ended September 30, 1974, which amounts are less than the tax of \$7,873,000 for 1973 and \$7,298,000 for the nine months ended September 30, 1974 respectively, which would result from applying the Canadian Federal tax rate (49% for 1973 and 50% for 1974 before deduction of the 10% abatement in respect of provincial income taxes and (1974) 10% abatement in respect of oil and gas income) to income before income taxes and minority interests of \$16,068,000 for 1973 and \$14,595,000 for the nine months ended September 30, 1974. The reasons for these differences are as follows:

	Year Ended December 31, 1973		Nine Months Ended September 30, 1974	
	Amount	% of Earnings Before Income Taxes	Amount	% of Earnings Before Income Taxes
Tax based on Canadian Federal tax rate.....	\$7,873	49.0%	\$7,298	50.0%
Deduction of depletion allowances on Canadian oil and gas income.....	(1,851)	(11.5)	(1,823)	(12.5)
Provincial royalties on oil and gas production included in income for tax purposes.....	—	—	2,199	15.1
Province of Alberta refund of taxes on Alberta provincial royalties.....	—	—	(630)	(4.3)
Federal tax abatements in respect of provincial income taxes and (1974) oil and gas income, net of provincial taxes and (1974) federal tax surcharge.....	152	0.9	(656)	(4.5)
Other items—net.....	(89)	(0.5)	463	3.1
Actual tax expense.....	<u>\$6,085</u>	<u>37.9%</u>	<u>\$6,851*</u>	<u>46.9%</u>

*Net of \$1,166,000 applicable to extraordinary items.

Total income tax expense for the nine months ended September 30, 1974 includes the effect of the income tax changes proposed in the budget dated November 18, 1974 by the Minister of Finance of Canada with effect from May 6, 1974 and in the announced "Alberta Petroleum Exploration Plan of December, 1974". These proposed income tax changes have not yet been passed by the respective parliamentary bodies. The net effect of the changes on net income for the nine months ended September 30, 1974 has been to reduce such income by approximately \$620,000 (\$.03 per share). See "Business and Properties of Cigol—Recent Government Policy" for further details of the proposed legislation.

(e) Reference is made to Note 2 to the consolidated financial statements of Cigol appearing elsewhere in this Information Circular and Proxy Statement.

(f) During 1973 costs relating to a proposed public financing were written off to contributed surplus. Under United States accounting practices these costs would have been charged to income and 1973 consolidated net income would have been reduced by \$783,000 (\$.04 per share).

(g) Earnings per Common Share have been computed by dividing the net income applicable to Common Shares by the weighted average number of Common Shares outstanding during the period. The dilutive effect of shares issuable on exercise of share options and on conversion of Preferred Shares and notes payable is not significant.

(h) Dividends per share are based on the number of shares outstanding at the date of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CIGOL'S CONSOLIDATED STATEMENT OF INCOME

Revenue

Sales, service and other operating revenue increased \$5,867,000 in 1972, \$11,324,000 in 1973 and \$17,213,000 for the nine months ended September 30, 1974 compared to the corresponding prior periods. The increases were in crude oil and natural gas liquids sales which improved \$1,054,000 in 1972, \$5,158,000 in 1973 and \$7,734,000 in the nine months ended September 30, 1974, reflecting increased production (up 383,000 barrels in 1972 and 811,000 barrels in 1973) resulting from successful water flood programs and better production facilities and a higher average selling price per barrel (up \$.54 in 1973 and \$2.13 for the nine months ended September 30, 1974). Liquefied petroleum gas sales also increased significantly, up \$2,866,000 in 1972, \$4,490,000 in 1973 and \$8,171,000 for the nine months ended September 30, 1974 on volume increases of 11,900,000, 7,500,000 and 7,100,000 gallons respectively, and an increase in the average selling price per gallon from \$.151 in 1972 to \$.176 in 1973 and to \$.257 for the nine months ended September 30, 1974.

Costs and Expenses

Gas and other merchandise purchases increased \$2,196,000 in 1972, \$3,973,000 in 1973 and \$6,164,000 for the nine months ended September 30, 1974, primarily from higher liquefied petroleum gas costs which increased \$1,715,000 in 1972, \$2,946,000 in 1973 and \$5,827,000 for the nine months ended September 30, 1974 as a result of additional volumes and a higher average cost per gallon (\$.086 in 1972, \$.105 in 1973 and \$.168 for the nine months ended September 30, 1974).

Selling, operating and administrative expenses increased \$1,123,000 in 1972, \$1,406,000 in 1973 and \$2,076,000 for the nine months ended September 30, 1974 reflecting primarily the impact of inflation, higher sales volumes and an increase in number of employees from 567 at December 31, 1972 to 604 at September 30, 1974.

Interest expense for the nine months ended September 30, 1974 increased \$1,313,000 over the corresponding period in 1973 as a result of higher average bank interest rates of 10.9% compared to 8.6% in 1973 and increased bank loans which were \$31,734,000 at September 30, 1974 compared to \$14,575,000 at September 30, 1973.

Depletion expense increased \$882,000 in 1972, \$747,000 in 1973 and \$717,000 for the nine months ended September 30, 1974 reflecting increased production in 1972 and 1973, higher depletion rates per equivalent barrel (on the average 1972—\$.71, 1973—\$.76 and \$.89 for the nine months ended September 30, 1974) and a write-off of mining property costs of \$325,000 in 1972 and \$310,000 in 1973.

Depreciation expense increased \$471,000 in 1973 arising from additional capital expenditures on oil and gas production equipment.

The information provided in the financial statements of Great Plains in this Information Circular and Proxy Statement, as well as "Management's Discussion and Analysis of Great Plains' Consolidated Statement of Income", has been furnished to N & C and Cigol by Great Plains for inclusion herein. The information provided in the audited financial statements of Great Plains has been included herein in reliance upon the report of Riddell, Stead & Co., independent chartered accountants, and upon the authority of such firm as an expert in accounting and auditing. N & C and Cigol are not in a position to verify the unaudited information.

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

CONSOLIDATED STATEMENT OF INCOME

(in thousands of Canadian dollars)

The following consolidated statement of income of Great Plains Development Company of Canada, Ltd. ("Great Plains") and its subsidiaries for the five years ended December 31, 1973, has been examined by Riddell, Stead & Co., independent chartered accountants, whose opinion thereon appears elsewhere in this Information Circular and Proxy Statement. The consolidated statement of income for the five years ended December 31, 1973 has been restated from that previously reported to give effect to those matters described in Note (b). The consolidated statement of income for the nine-month periods ended September 30, 1973 and 1974 has not been audited; however, in the opinion of management of Great Plains, all adjustments (consisting only of normal recurring adjustments) necessary to the fair statement of the results of operations of such periods have been made. The results of operations for the nine months ended September 30, 1974 are not necessarily indicative of the operating results for the full fiscal year. The consolidated statement of income should be read in conjunction with the other consolidated financial statements of Great Plains and its subsidiaries and the notes thereto appearing elsewhere in this Information Circular and Proxy Statement.

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b))	(Restated Note (b)) (Unaudited)	(Unaudited)
REVENUE							
Production.....	\$ 9,186	\$ 9,887	\$11,046	\$12,112	\$16,527	\$11,764	\$15,873
Interest and other income.....	247	835	613	350	2,208	1,491	1,718
	<u>9,433</u>	<u>10,722</u>	<u>11,659</u>	<u>12,462</u>	<u>18,735</u>	<u>13,255</u>	<u>17,591</u>
EXPENSE							
Operating.....	2,321	2,599	3,034	3,338	4,061	2,910	3,155
General and administrative.....	169	248	359	391	830	617	715
Mineral exploration.....	584	842	799	707	564	480	412
Depletion.....	1,791	2,110	2,409	2,624	3,337	2,285	2,605
Depreciation.....	479	528	597	661	931	648	688
Amortization of debenture issue costs (d).....	—	—	—	—	32	21	20
Interest on long-term debt.....	359	200	3	4	1,374	996	1,097
	<u>5,703</u>	<u>6,527</u>	<u>7,201</u>	<u>7,725</u>	<u>11,129</u>	<u>7,957</u>	<u>8,692</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....	3,730	4,195	4,458	4,737	7,606	5,298	8,899
Income taxes (c)							
—current.....	—	—	—	—	250	—	3,710
—deferred.....	1,262	1,399	1,517	1,620	2,271	1,766	174
	<u>1,262</u>	<u>1,399</u>	<u>1,517</u>	<u>1,620</u>	<u>2,521</u>	<u>1,766</u>	<u>3,884</u>
INCOME BEFORE EXTRAORDINARY ITEM.....	2,468	2,796	2,941	3,117	5,085	3,532	5,015
Premium paid and unamortized debenture issue costs written off on redemption of 5% convertible subordinated debentures, net of applicable income taxes of \$187 (d).....	—	—	—	—	—	—	1,908
NET INCOME.....	\$ 2,468	\$ 2,796	\$ 2,941	\$ 3,117	\$ 5,085	\$ 3,532	\$ 3,107
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000's omitted).....	3,195	3,197	3,200	3,232	3,243	3,243	3,245
EARNINGS PER COMMON SHARE(e)							
Income before extraordinary item..	\$.77	\$.87	\$.92	\$.96	\$1.56	\$1.09	\$1.55
Net income.....	\$.77	\$.87	\$.92	\$.96	\$1.56	\$1.09	\$.96
DIVIDENDS PER COMMON SHARE (f) ..	\$.40	\$.40	\$.40	\$.40	\$.50	—	—

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

NOTES TO CONSOLIDATED STATEMENT OF INCOME

(tabular amounts shown in thousands of Canadian dollars)

(Information for the nine-month periods ended September 30, 1973 and September 30, 1974 is unaudited.)

(a) Reference is made to Notes 1 and 2 to the consolidated financial statements of Great Plains and subsidiaries for information as to consolidation and accounting policies.

(b) Consolidated net income has been restated from amounts previously reported to give retroactive effect to the changes in accounting for income taxes as outlined in Note (c) below and the accounting for mineral exploration costs as outlined in Note 2(b) to the consolidated financial statements of Great Plains. These changes had the effect of reducing previously reported consolidated net income as follows:

	December 31,					Nine Months Ended September 30, 1973
	1969	1970	1971	1972	1973	
Net income, as previously reported.....	\$3,636	\$4,225	\$4,374	\$4,501	\$6,465	\$4,503
Adjustments						
(i) Write-off of mineral exploration costs—net (Note 2(b)).....	(466)	(659)	(585)	(474)	—	—
(ii) Increase in deferred income taxes (Note (c)).....	(702)	(770)	(848)	(910)	(1,380)	(971)
Net income, as restated, as per consolidated statement of income.....	<u>\$2,468</u>	<u>\$2,796</u>	<u>\$2,941</u>	<u>\$3,117</u>	<u>\$5,085</u>	<u>\$3,532</u>
Earnings per share						
—as previously reported.....	\$1.14	\$1.32	\$1.37	\$1.39	\$1.99	\$1.39
—as restated.....	\$.77	\$.87	\$.92	\$.96	\$1.56	\$1.09

The cumulative effect of the change in accounting for mineral exploration costs would, under United States accounting practices, have been reflected as a "cumulative effect adjustment" in the amount of \$2,779,000 (\$.86 per share) in 1973, the year of change.

(c) In determining reported net income the companies have, for many years, made provisions for deferred income taxes at rates which were less than those in effect under then prevailing taxation legislation, but which it was estimated would adequately provide for all income taxes payable by the companies in the foreseeable future. However, this method did not conform with the tax allocation basis recommended by the Canadian Institute of Chartered Accountants, which has not been generally followed by the Canadian oil and gas industry. On March 29, 1974 the Canadian Securities Commissions advised the oil and gas industry that thereafter all financial statements filed with the Commissions must adhere to the Institute's recommendations.

In view of the foregoing, the companies have in 1974, with retroactive application to prior periods, applied the tax allocation method of accounting. Under this method, the companies provide for deferred income taxes to the extent that income taxes otherwise payable are reduced by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in the accounts. This change in accounting method had the effect of reducing consolidated net income previously reported by the amounts shown in Note (b) above, and increasing cumulative deferred income taxes by \$11,750,000 at December 31, 1973 (\$14,426,000 at September 30, 1974). Consolidated net income for the nine months ended September 30, 1974 was reduced by \$2,676,000 (\$.82 per share).

Total income tax expense amounted to \$2,521,000 for the year ended December 31, 1973 and \$3,697,000 for the nine months ended September 30, 1974. These amounts are different from the tax of \$3,727,000 for 1973 and \$3,402,000 for the nine months ended September 30, 1974 respectively, which would result from applying the Canadian Federal tax rate (49% for 1973 and 50% for 1974 before deduction of the 10% abatement in respect of provincial income taxes and (1974) 10% abatement in respect of oil and gas income) to income before income taxes of \$7,606,000 for 1973 and \$6,804,000 for the nine months ended September 30, 1974. The reasons for these differences are as follows:

	Year Ended December 31, 1973		Nine Months Ended September 30, 1974	
	Amount	% of Earnings Before Income Taxes	Amount	% of Earnings Before Income Taxes
Tax based on Canadian federal tax rate.....	\$3,727	49.0%	\$3,402	50.0%
Deduction of depletion allowances on Canadian oil and gas income.....	(1,490)	(19.6)	(1,828)	(26.9)
Non-deductible items.....	223	2.9	901	13.2
Provincial royalties on oil and gas production included in income for tax purposes.....	—	—	2,750	40.4
Province of Alberta refund of taxes on Alberta provincial royalties.....	—	—	(890)	(13.1)
Federal tax abatements in respect of provincial income taxes and (1974) oil and gas income, net of provincial taxes and (1974) federal tax surcharge.....	61	0.8	(532)	(7.8)
Other items—net.....	—	—	(106)	(1.5)
Actual tax expense.....	<u>\$2,521</u>	<u>33.1%</u>	<u>\$3,697*</u>	<u>54.3%</u>

*Net of \$187,000 applicable to extraordinary item.

Total income tax expense for the nine months ended September 30, 1974 includes the effect of the income tax changes proposed in the Budget dated November 18, 1974 by the Minister of Finance of Canada with effect from May 6, 1974 and in the announced "Alberta Petroleum Exploration Plan of December, 1974". These proposed income tax changes have not yet been passed by the respective parliamentary bodies. The net effect of the changes on net income for the nine months ended September 30, 1974 has been to reduce such income by approximately \$829,000 (\$.26 per share). See "Business and Properties of Cigol—Recent Government Policy" for further details of the proposed legislation.

(d) Reference is made to Note 3 to the consolidated financial statements of Great Plains and subsidiaries appearing elsewhere in this Information Circular and Proxy Statement.

(e) Earnings per Common Share have been computed by dividing the net income by the weighted average number of Common Shares outstanding during the period. The dilutive effect of Common Share equivalents, and assuming the conversion of the 5% Convertible Subordinated Debentures due February 1, 1993 at the date of issue, is not significant. No Common Shares were contingently issuable at September 30, 1974.

(f) Dividends per share are based on the number of shares outstanding at the date of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF GREAT PLAINS' CONSOLIDATED STATEMENT OF INCOME

Revenue

Production revenue increased \$1,066,000 in 1972, \$4,415,000 in 1973 and \$4,109,000 for the nine months ended September 30, 1974 compared to the corresponding prior periods. Part of the increase was attributable to crude oil and natural gas liquids revenue which increased \$457,000 in 1972, \$2,434,000 in 1973 and \$2,951,000 in the nine months ended September 30, 1974. These production revenue increases resulted from the acquisition of producing properties and higher average selling prices per barrel (up \$.64 in 1973 and \$2.27 for the nine months ended September 30, 1974) and were partially offset by higher royalties. Natural gas revenue also increased significantly, up \$638,000 in 1972, \$1,960,000 in 1973 and \$1,055,000 for the nine months ended September 30, 1974. Natural gas revenue increases resulted from additional properties coming onstream during 1973 and increases in the average net selling price per million cubic feet of gas from 22.0 cents in 1972 to 29.2 cents in 1973 and to 35.7 cents for the nine months ended September 30, 1974 as a result of renegotiation of gas prices with purchasers. Natural gas revenue increases which are attributed to these price increases were partially offset by higher royalties paid to provincial governments.

Interest and other income was reduced by \$263,000 in 1972 due to a reduction in cash surpluses which had been invested in short-term securities. Increases of \$1,858,000 in 1973 and \$227,000 in the nine months ended September 30, 1974 resulted from the investment of the proceeds from the issue of \$30,000,000 of 5% convertible subordinated debentures in February, 1973 in short-term interest bearing investments. Redemption of the debentures occurred on August 21, 1974.

Cost and Expenses

Operating expenses increased \$304,000 in 1972, \$723,000 in 1973 and \$245,000 for the nine months ended September 30, 1974 compared to the corresponding prior periods reflecting primarily the impact of inflation, higher production volumes, plant start-ups and acquisition of producing properties. General administrative expenses increased \$439,000 in 1973 and \$98,000 for the nine months ended September 30, 1974. Inflationary factors and payment of past service pension benefit costs in 1973 accounted for the major part of the increase.

Mineral exploration expenses were reduced by \$92,000 in 1972 and \$143,000 in 1973 due to reduced exploration activity.

Depletion and depreciation increased \$983,000 in 1973 due to increased production and additional capital expenditures. Interest on long-term debt increased by \$1,402,000 in 1973 as a result of the issuance of \$30,000,000 of 5% convertible subordinated debentures in February, 1973.

NORCEN ENERGY RESOURCES LIMITED

UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET GIVING EFFECT TO THE PROPOSED REORGANIZATION AND THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

(in thousands of Canadian dollars)

The following unaudited pro-forma condensed balance sheet at September 30, 1974 gives effect to the proposed reorganization of N & C and Cigol after giving effect to the acquisition of Great Plains as if both had been completed at that date. The reorganization has been accounted for as though it were a pooling of interests. Under United States accounting principles the reorganization would have been accorded "purchase" accounting treatment. See Note (c) to the unaudited pro-forma condensed statement of income of Norcen giving effect to the proposed reorganization and the acquisition of Great Plains. Such pro-forma condensed balance sheet should be read in conjunction with the consolidated balance sheets of N & C, Cigol and Great Plains including the notes thereto and the unaudited pro-forma condensed balance sheets of N & C and Cigol, giving effect to the proposed acquisition of Great Plains, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Cigol Pro-forma Giving effect to the acquisition of Great Plains	N & C Pro-forma	Pro-forma Adjustments Add (Deduct) (Note 1)	Norcen Pro-forma
ASSETS				
Current assets.....	\$ 30,551	\$ 75,081		\$ 75,081
Investments.....	22,542	31,946		31,946
Property, plant and equipment, less accumulated depreciation and depletion.....	233,598	651,529		651,529
Deferred charges and other assets.....	2,310	16,658		16,658
Intangible assets arising from acquisitions.....		35,820		35,820
	<u>\$289,001</u>	<u>\$811,034</u>	<u>—</u>	<u>\$811,034</u>
LIABILITIES AND EQUITY				
Current liabilities.....	\$ 24,122	\$ 82,573		\$ 82,573
Bank loans.....	124,471	128,996		128,996
Long-term debt.....	17,190	313,771		313,771
Deferred income taxes.....	39,321	39,321		39,321
Minority interests				
—Gas utilities.....	—	22,349	(a) \$ 8,128	30,477
—Cigol.....	2,010	34,288	(b) (32,278)	2,010
—Coleman Collieries Limited.....	—	2,082		2,082
SHAREHOLDERS' EQUITY				
Capital stock				
Preference Shares.....	—	77,442	(a) (8,128)	69,314
Common Shares.....	29,283	78,957	(b) 11,542	90,499
Contributed surplus.....	173	—	(b) 69	69
Retained earnings (Note 2).....	52,431	31,255	(b) 20,667	51,922
	<u>\$289,001</u>	<u>\$811,034</u>	<u>—</u>	<u>\$811,034</u>

NORCEN ENERGY RESOURCES LIMITED

**NOTES TO UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET
GIVING EFFECT TO THE PROPOSED REORGANIZATION AND THE ACQUISITION OF
GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.**

(in thousands of Canadian dollars)

NOTE 1—For purposes of the pro-forma condensed balance sheet the following adjustments were made:

(a) the issue of First Preference Shares, Junior Preference Shares and Common Shares in exchange on a one-for-one basis for the outstanding Second Preference, Junior Preference and Common Shares respectively of N & C which has the effect of establishing the \$8,128,000 of First Preference Shares of N & C as minority interest; and

(b) the conversion of every ten Common Shares of Cigol (other than shares held by N & C) into seven Common Shares of Norcen.

NOTE 2—Cigol had approximately \$42 million of retained earnings available for dividends at September 30, 1974, and N & C approximately \$10 million. Cigol has negotiated modifications to the deed of trust securing its First Mortgage Bonds which will free all Norcen's consolidated retained earnings from dividend restriction.

NORCEN ENERGY RESOURCES LIMITED

UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE PROPOSED REORGANIZATION AND THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

(in thousands of Canadian dollars)

The following unaudited pro-forma statement of income for the year ended December 31, 1973 and for the nine months ended September 30, 1973 and September 30, 1974 gives effect to the proposed reorganization of N & C and Cigol after giving effect to the acquisition of Great Plains as if both had been made with effect as of January 1, 1973. The reorganization has been accounted for as though it were a pooling of interests. Under United States accounting principles the reorganization would have been accorded "purchase" accounting treatment (See Note (c)). This statement should be read in conjunction with the consolidated statements of income of N & C, Cigol and Great Plains, including the notes thereto, and the unaudited pro-forma condensed statements of income of N & C and Cigol, giving effect to the proposed acquisition of Great Plains, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Pro-forma		
	Year Ended December 31,	Nine Months Ended September 30,	
	1973	1973	1974
REVENUE			
Gas utilities.....	\$188,591	\$132,225	\$164,089
Oil and gas exploration and production.....	77,699	53,226	74,829
Coal.....	15,395	11,079	17,687
	<u>281,685</u>	<u>196,530</u>	<u>256,605</u>
COSTS AND EXPENSES			
Gas purchased, production and depreciation.....	219,839	154,052	193,309
Interest—long-term debt, other and amortization of financing expenses.....	35,887	26,494	30,400
Income taxes.....	6,216	4,631	10,534
	<u>261,942</u>	<u>185,177</u>	<u>234,243</u>
	19,743	11,353	22,362
Minority interests in subsidiaries.....	2,363	1,534	2,528
Income (loss) before extraordinary items			
Gas utilities.....	10,326	5,483	9,722
Oil and gas exploration and production.....	7,291	4,506	9,245
Coal.....	(237)	(170)	867
INCOME BEFORE EXTRAORDINARY ITEMS.....	<u>17,380</u>	<u>9,819</u>	<u>19,834</u>
EXTRAORDINARY ITEMS			
Writedown of investment (net of deferred income taxes).....	—	—	(2,334)
Reduction in a subsidiary's income taxes resulting from application of prior years' tax losses, after minority interest.....	—	—	1,138
Premium paid and debenture costs written off (net of income taxes).....	—	—	(1,908)
NET INCOME.....	<u>17,380</u>	<u>9,819</u>	<u>16,730</u>
Dividend requirements on preference shares.....	4,207	3,156	3,125
NET INCOME APPLICABLE TO COMMON SHARES.....	<u>\$ 13,173</u>	<u>\$ 6,663</u>	<u>\$ 13,605</u>
Weighted average number of Common Shares (000's omitted).....	<u>19,276</u>	<u>19,241</u>	<u>19,391</u>
Earnings per Common Share (d)			
—before extraordinary items.....	\$.68	\$.35	\$.86
—net income.....	\$.68	\$.35	\$.70
Fully diluted earnings per Common Share (d)			
—before extraordinary items.....	\$.68	\$.35	\$.82
—net income.....	\$.68	\$.35	\$.69

NORCEN ENERGY RESOURCES LIMITED

NOTES TO UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE PROPOSED REORGANIZATION AND THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

(tabular amounts in thousands of Canadian dollars)

(a) Under the terms of the proposed reorganization, the holders of the 39% minority interest in Cigol will receive seven Common Shares of Norcen for every ten Common Shares of Cigol. The reorganization, in accordance with Canadian accounting practice, will be accounted for as though it were a pooling of interests and, accordingly, the pro-forma condensed statement of income reflects the elimination of minority interest in the net income of Cigol for all periods.

Dividends on the First Preference Shares of N & C have been reclassified to minority interest since under the terms of the proposed reorganization the holders of such shares remain shareholders of N & C.

(b) The pro-forma condensed statement of income for the year ended December 31, 1973 and the nine months ended September 30, 1973 and 1974 adjusts the pro-forma condensed statement of income of N & C giving effect to the acquisition by Cigol of Great Plains, for the elimination of the minority interest in the net income of Cigol for the stated periods.

(c) Under United States accounting principles, the reorganization would be accorded "purchase" accounting treatment. Accordingly, income accruing to the minority interest prior to the date of reorganization would not be included in consolidated net income nor would the cumulative effect have been credited to retained earnings. As well, the excess of the cost of the minority shares of Cigol over their underlying book value at the date of the reorganization, \$14,000,000, would be included in property, plant and equipment on the company's consolidated balance sheet and would be amortized in the future on the same basis as petroleum and natural gas rights.

The following table presents a reconciliation of the two methods:

		Nine Months Ended September 30,	
	1973	1973	1974
Pro-forma net income applicable to Common Shares (on Canadian basis).....	\$13,173	\$6,663	\$13,605
Amortization of excess cost attributable to petroleum and natural gas rights.....	1,034	764	683
Pro-forma net income applicable to Common Shares (United States basis)*.....	\$12,139	\$5,899	\$12,922
Earnings per Common Share (United States basis)	\$.63	\$.31	\$.67

*Non-recurring items of \$299,000 (\$.02 per share) and \$474,000 (\$.02 per share) (as more fully explained in Note (f) to the consolidated statement of income of N & C) would in the United States have been charged to income in 1974 and 1973, respectively, as cumulative effect adjustments.

(d) Per share earnings give effect to the Common Shares, convertible Preference Shares, warrants (assuming substitution of Norcen warrants for all the N & C warrants) and options outstanding as a result of the reorganization. See Note (d) to the consolidated statement of income of N & C as to method of computation.

NORCEN ENERGY RESOURCES LIMITED

UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET GIVING EFFECT TO THE PROPOSED REORGANIZATION BUT EXCLUDING THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. (in thousands of Canadian dollars)

The following unaudited pro-forma condensed balance sheet at September 30, 1974 gives effect to the proposed reorganization of N & C and Cigol (but excludes the acquisition of Great Plains) as if it had been completed at that date. The reorganization has been accounted for as though it were a pooling of interests. Under United States accounting principles the reorganization would have been accorded "purchase" accounting treatment. See Note (b) to the unaudited pro-forma condensed statement of income giving effect to the proposed reorganization. This pro-forma condensed balance sheet should be read in conjunction with the consolidated balance sheets of N & C and of Cigol, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Cigol	N & C Consolidated (Including Cigol)	Pro-forma Adjustments Add (Deduct) (Note 1)	Norcen Pro-forma
Assets				
Current assets	\$ 23,178	\$ 67,708		\$ 67,708
Investments	22,542	31,946		31,946
Property, plant and equipment, less accumulated depreciation and depletion	136,268	554,199		554,199
Deferred charges and other assets	2,075	16,423		16,423
Intangible assets arising from acquisitions	—	35,820		35,820
	<u>\$184,063</u>	<u>\$706,096</u>	<u>—</u>	<u>\$706,096</u>
Liabilities and Equity				
Current liabilities	\$ 14,614	\$ 73,065		\$ 73,065
Bank loans	31,471	35,996		35,996
Long-term debt	14,760	311,341		311,341
Deferred income taxes	39,321	39,321		39,321
Minority interests				
—Gas utilities	—	22,349	(a) 8,128	30,477
—Cigol	2,010	34,288	(b) (32,278)	2,010
—Coleman Collieries Limited	—	2,082		2,082
Shareholders' equity				
Capital stock				
Preference Shares	—	77,442	(a) (8,128)	69,314
Common Shares	29,283	78,957	(b) 11,542	90,499
Contributed surplus	173	—	(b) 69	69
Retained earnings (Note 2)	52,431	31,255	(b) 20,667	51,922
	<u>\$184,063</u>	<u>\$706,096</u>	<u>—</u>	<u>\$706,096</u>

NOTES TO UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET GIVING EFFECT TO THE PROPOSED REORGANIZATION BUT EXCLUDING THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

NOTE 1 For purposes of the pro-forma condensed balance sheet the following adjustments were made:

(a) the issue of First Preference Shares, Junior Preference Shares and Common Shares in exchange on a one-for-one basis for the outstanding Second Preference, Junior Preference and Common Shares respectively of N & C which has the effect of establishing the \$8,128,000 of First Preference Shares of N & C as minority interest; and

(b) the conversion of every ten Common Shares of Cigol (other than shares held by N & C) into seven Common Shares of Norcen.

NOTE 2 Cigol had approximately \$42 million of retained earnings available for dividends at September 30, 1974, and N & C approximately \$10 million. Cigol has negotiated modifications to the deed of trust securing its First Mortgage Bonds which will free all of Norcen's consolidated retained earnings from dividend restriction.

NORCEN ENERGY RESOURCES LIMITED

UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE PROPOSED REORGANIZATION BUT EXCLUDING THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. (in thousands of Canadian dollars)

The following unaudited pro-forma condensed statement of income for the five years ended December 31, 1973 and for the nine months ended September 30, 1973 and September 30, 1974 gives effect to the proposed reorganization of N & C and Cigol (but excludes the acquisition of Great Plains) as though it were a pooling of interests and reflects the adjustment described in Note (a). Under United States accounting principles the reorganization would have been accorded "purchase" accounting treatment (see Note (b)). This pro-forma condensed statement of income should be read in conjunction with the consolidated statements of income of N & C and Cigol and other consolidated financial statements, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Pro-forma					Nine Months Ended September 30,	
	Year Ended December 31,					1973	1974
	1969	1970	1971	1972	1973	1973	1974
REVENUE							
Gas utilities.....	\$132,771	\$149,338	\$162,169	\$170,557	\$188,591	\$132,225	\$164,089
Oil and gas exploration and production.....	34,424	33,196	41,271	47,432	58,964	39,971	57,238
Coal.....	—	—	12,357	12,775	15,395	11,079	17,687
	<u>167,195</u>	<u>182,534</u>	<u>215,797</u>	<u>230,764</u>	<u>262,950</u>	<u>183,275</u>	<u>239,014</u>
COSTS AND EXPENSES							
Gas purchased, production and depreciation.....	130,024	141,883	169,362	181,205	206,900	144,507	183,774
Interest—long-term debt, other and amortization of financing expenses.....	18,420	21,674	25,124	24,745	26,781	20,077	21,583
Income taxes.....	4,306	4,235	4,653	5,776	6,869	5,121	10,589
	<u>152,750</u>	<u>167,792</u>	<u>199,139</u>	<u>211,726</u>	<u>240,550</u>	<u>169,705</u>	<u>215,946</u>
	<u>14,445</u>	<u>14,742</u>	<u>16,658</u>	<u>19,038</u>	<u>22,400</u>	<u>13,570</u>	<u>23,068</u>
Minority interests in subsidiaries.....	2,089	1,501	2,089	2,138	2,327	1,534	2,528
Income (loss) prior to date of acquisition of subsidiaries acquired during the period (a).....	971	—	(621)	—	—	—	—
	<u>3,060</u>	<u>1,501</u>	<u>1,468</u>	<u>2,138</u>	<u>2,327</u>	<u>1,534</u>	<u>2,528</u>
Income (loss) before extraordinary items							
Gas utilities.....	6,323	7,980	9,288	10,823	10,326	5,483	9,722
Oil and gas exploration and production.....	5,062	5,261	5,783	6,448	9,984	6,723	9,951
Coal.....	—	—	119	(371)	(237)	(170)	867
INCOME BEFORE EXTRAORDINARY ITEMS.....	<u>11,385</u>	<u>13,241</u>	<u>15,190</u>	<u>16,900</u>	<u>20,073</u>	<u>12,036</u>	<u>20,540</u>
EXTRAORDINARY ITEMS							
Writedown of investment (net of deferred income taxes).....	—	—	—	—	—	—	(2,334)
Reduction in a subsidiary's income taxes resulting from application of prior years' tax losses, after minority interest.....	—	—	—	—	—	—	1,138
NET INCOME.....	<u>11,385</u>	<u>13,241</u>	<u>15,190</u>	<u>16,900</u>	<u>20,073</u>	<u>12,036</u>	<u>19,344</u>
Dividend requirements on preference shares.....	2,284	2,233	2,163	3,160	4,207	3,156	3,125
NET INCOME APPLICABLE TO COMMON SHARES.....	<u>\$ 9,101</u>	<u>\$ 11,008</u>	<u>\$ 13,027</u>	<u>\$ 13,740</u>	<u>\$ 15,866</u>	<u>\$ 8,880</u>	<u>\$ 16,219</u>
Weighted average number of Common Shares (000's omitted).....	<u>17,143</u>	<u>18,098</u>	<u>18,789</u>	<u>19,059</u>	<u>19,276</u>	<u>19,241</u>	<u>19,391</u>
Earnings per Common Share (c)							
—before extraordinary items.....	\$.53	\$.61	\$.69	\$.72	\$.82	\$.46	\$.90
—net income.....	\$.53	\$.61	\$.69	\$.72	\$.82	\$.46	\$.84
Fully diluted earnings per Common Share (c)							
—before extraordinary items.....	\$.53	\$.61	\$.69	\$.72	\$.82	\$.46	\$.85
—net income.....	\$.53	\$.61	\$.69	\$.72	\$.82	\$.46	\$.80

NORCEN ENERGY RESOURCES LIMITED

NOTES TO UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE PROPOSED REORGANIZATION BUT EXCLUDING THE ACQUISITION OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

(tabular amounts in thousands of Canadian dollars)

(a) Under the terms of the proposed reorganization, the holders of the 39% minority interest in Cigol will receive seven Common Shares of Norcen for every ten Common Shares of Cigol. The reorganization, in accordance with Canadian accounting practice, will be accounted for as though it were a pooling of interests and, accordingly, the pro-forma condensed statement of income reflects the elimination of minority interest in the net income of Cigol for all periods.

Dividends on the First Preference Shares of N & C have been reclassified to minority interest since under the terms of the proposed reorganization the holders of such shares remain shareholders of N & C.

(b) Under United States accounting principles, the reorganization would be accorded "purchase" accounting treatment. Accordingly, income accruing to the minority interest prior to the date of reorganization would not be included in consolidated net income nor would the cumulative effect have been credited to retained earnings. As well, the excess of the cost of the minority shares of Cigol over their underlying book value at the date of the reorganization, \$14,000,000, would be included in property, plant and equipment on the company's consolidated balance sheet and would be amortized in the future on the same basis as petroleum and natural gas rights.

The following table presents a reconciliation of the two methods:

	1973	Nine Months Ended September 30,	
		1973	1974
Pro-forma net income applicable to Common Shares (on Canadian basis).....	\$15,866	\$ 8,880	\$16,219
Amortization of excess cost attributable to petroleum and natural gas rights.....	954	801	852
Pro-forma net income applicable to Common Shares (United States basis)*.....	\$14,912	\$ 8,079	\$15,367
Earnings per Common Share (United States basis).....	\$.77	\$.42	\$.79

*Non-recurring items of \$299,000 (\$.02 per share) and \$474,000 (\$.02 per share) as more fully explained in Note (f) to the consolidated statement of income of N & C would, in the United States, have been charged to income in 1974 and 1973, respectively, as cumulative effect adjustments.

Under United States accounting methods, this pro-forma condensed statement of income would be prepared so as to present the transaction as if it had been made with effect as of January 1, 1973 and pro-forma results would have been presented only for the year ended December 31, 1973 and the nine-month periods ended September 30, 1973 and 1974.

(c) Per share earnings give effect to the Common Shares, convertible Preference Shares, warrants (assuming substitution of Norcen warrants for all the N & C warrants) and options outstanding as a result of the reorganization. See Note (d) to the consolidated statement of income of N & C as to method of computation.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET
GIVING EFFECT TO THE ACQUISITION
OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.
BEFORE THE REORGANIZATION
(in thousands of Canadian dollars)

The following unaudited pro-forma condensed balance sheet at September 30, 1974 gives effect to the acquisition by Cigol of 100% of the outstanding shares of Great Plains before the reorganization and without giving effect to the exercise of the N & C right to acquire 22% of the Great Plains shares (Note 2). The acquisition has been accounted for as a purchase as if it had been completed at that date. This pro-forma condensed balance sheet should be read in conjunction with the consolidated balance sheets of N & C and of Great Plains, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	<u>N & C</u>	<u>Great Plains</u>	<u>Pro-forma Adjustments Add (Deduct)</u> (Note 1)	<u>N & C Pro-forma</u>
ASSETS				
Current assets.....	\$ 67,708	\$15,673	(a) \$(2,600) (b) (5,700)	\$ 75,081
Investments.....	31,946			31,946
Property, plant and equipment, less accumulated depreciation and depletion.....	554,199	75,081	(a) 23,549 (b) (1,300)	651,529
Deferred charges and other assets.....	16,423	235		16,658
Intangible assets arising from acquisitions.....	35,820			35,820
	<u>\$706,096</u>	<u>\$90,989</u>	<u>\$13,949</u>	<u>\$811,034</u>
LIABILITIES AND EQUITY				
Current liabilities.....	\$ 73,065	\$16,508	(b) \$(7,000)	\$ 82,573
Bank loans.....	35,996		(a) \$93,000	128,996
Long-term debt.....	311,341	2,430		313,771
Deferred income taxes.....	39,321	19,580	(a) (19,580)	39,321
Minority interests.....	58,719			58,719
SHAREHOLDERS' EQUITY				
Capital stock				
Preference shares.....	77,442			77,442
Common shares.....	78,957	3,246	(a) (3,246)	78,957
Contributed surplus.....		25,258	(a) (25,258)	
Retained earnings.....	31,255	23,967	(a) (23,967)	31,255
	<u>\$706,096</u>	<u>\$90,989</u>	<u>\$13,949</u>	<u>\$811,034</u>

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

**NOTES TO UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET
GIVING EFFECT TO THE ACQUISITION
OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.
BEFORE THE REORGANIZATION**

NOTE1— For purposes of the pro-forma condensed balance sheet the following adjustments were made:

(a) The acquisition of all of the outstanding shares of Great Plains for \$95,600,000 (subject to certain adjustments) of which \$93,000,000 is to be financed by a term bank loan repayable over ten years bearing interest as to \$43,000,000 at 1% over the bank prime rate (increasing to 2% in various stages through the term of the loan) and as to \$50,000,000 at $\frac{3}{4}$ of 1% above bankers' acceptance rates (such rate would have been approximately 9.8% in the nine months ended September 30, 1974; 7.4% in the year ended December 31, 1973). The loan will be secured by a pledge of the shares of Great Plains. Annual repayments, which commence in 1976, are as follows:

1976—\$6,000,000, 1977—\$8,000,000, 1978—\$8,000,000, 1979—\$8,000,000, with increasing amounts due during the balance of the term.

On consolidation, the excess of the cost of the shares of Great Plains over their underlying book value at the date of acquisition, \$23,549,000, is included in property, plant and equipment on the company's consolidated balance sheet and will be amortized in the future on the same basis as petroleum and natural gas rights. See note 1(a) to the unaudited pro-forma condensed statement of income of N & C giving effect to the acquisition by Cigol of Great Plains.

(b) The transfer of certain properties (net) by Great Plains to and from an affiliated company in return for a note of \$1,300,000 and the repayment by Great Plains of the amount due to the parent company by the transfer of the note (\$1,300,000) and cash of \$5,700,000.

NOTE 2—The exercise of N & C's right to acquire 22% of the shares of Great Plains from Cigol would have no effect on the pro-forma condensed balance sheet.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME
GIVING EFFECT TO THE ACQUISITION OF 100%
OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.
BEFORE THE REORGANIZATION
(in thousands of Canadian dollars)

The following unaudited pro-forma condensed statement of income for the year ended December 31, 1973 and for the nine months ended September 30, 1973, and September 30, 1974 gives effect to the acquisition by Cigol of 100% of the outstanding shares of Great Plains before the reorganization and without giving effect to the exercise of the N & C right to acquire 22% of the Great Plains shares (Note 3). The acquisition has been accounted for as a purchase as if it had been made with effect as of January 1, 1973. This statement should be read in conjunction with the consolidated statements of income of N & C and Great Plains and other consolidated financial statements, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Year Ended December 31, 1973				Nine Months Ended September 30,	
	N & C	Great Plains	Pro-forma Adjustments Add (Deduct) (Note 1)	N & C Pro-forma	1973 N & C Pro-forma	1974 N & C Pro-forma
REVENUE						
Gas utilities.....	\$188,591			\$188,591	\$132,225	\$164,089
Oil and gas exploration and production	58,964	\$18,735		77,699	53,226	74,829
Coal.....	15,395			15,395	11,079	17,687
	<u>262,950</u>	<u>18,735</u>		<u>281,685</u>	<u>196,530</u>	<u>256,605</u>
COSTS AND EXPENSES						
Gas purchased, production.....			(a) 2,444			
and depreciation.....	206,900	9,723	(b) 772	219,839	154,052	193,309
Interest—long-term debt, other and amortization of.....						
financing expenses.....	26,781	1,406	(c) 7,700	35,887	26,494	30,400
Income taxes.....	6,869	2,521	(d) (3,174)	6,216	4,631	10,534
	<u>240,550</u>	<u>13,650</u>	<u>7,742</u>	<u>261,942</u>	<u>185,177</u>	<u>234,243</u>
	22,400	5,085	(7,742)	19,743	11,353	22,362
Minority interests in subsidiaries.....	5,843		(e) (1,047)	4,796	2,977	5,854
Income (loss) before extraordinary items						
Gas utilities.....	10,754			10,754	5,811	10,041
Oil and gas exploration and production	6,040	5,085	(6,695)	4,430	2,735	5,600
Coal.....	(237)			(237)	(170)	867
INCOME BEFORE EXTRAORDINARY ITEMS	<u>16,557</u>	<u>5,085</u>	<u>(6,695)</u>	<u>14,947</u>	<u>8,376</u>	<u>16,508</u>
EXTRAORDINARY ITEMS						
(after minority interest)						
Writedown of investment						
(net of deferred income taxes).....						(1,414)
Reduction in a subsidiary's income taxes resulting from application of prior years' tax losses.....						1,138
Premium paid and debenture costs written off (net of income taxes)...						(1,156)
NET INCOME	<u>16,557</u>	<u>5,085</u>	<u>(6,695)</u>	<u>14,947</u>	<u>8,376</u>	<u>15,076</u>
Dividend requirements on preference shares.....	4,635			4,635	3,484	3,444
NET INCOME APPLICABLE TO COMMON SHARES	<u>\$ 11,922</u>	<u>\$ 5,085</u>	<u>\$(6,695)</u>	<u>\$ 10,312</u>	<u>\$ 4,892</u>	<u>\$ 11,632</u>
Weighted average number of Common Shares (000's omitted).....				13,426	13,425	13,437
Earnings per Common Share (Note 4)						
—before extraordinary items.....				\$.77	\$.36	\$.97
—net income.....				\$.77	\$.36	\$.87
Fully diluted earnings per Common Share (Note 4)						
—before extraordinary items.....				\$.77	\$.36	\$.88
—net income.....				\$.77	\$.36	\$.81

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

NOTES TO UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE ACQUISITION OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. BEFORE THE REORGANIZATION

NOTE 1—For purposes of the pro-forma condensed statement of income the following adjustments were made:

- (a) depletion of petroleum and natural gas rights which includes the excess cost arising on the acquisition and excludes the properties transferred by Great Plains to an affiliated company has been provided on the unit-of-production basis based on the total estimated recoverable reserves of N & C and Great Plains.
- (b) depreciation has been calculated on the fair value of the plant and equipment acquired on the same basis as N & C.
- (c) interest has been provided on the term bank loan of \$93,000,000 at the applicable rates in effect during the periods.
- (d) the adjustment reflects the tax effect of changes in depreciation and interest expense.
- (e) the adjustment reflects the minority interest in the net income of Cigol after giving effect to the acquisition of 100% of the Common Shares of Great Plains by Cigol.

NOTE 2—The payment arrangement amounting to \$1,200,000, as described in note 7(b) to the consolidated financial statements of Great Plains, has not been included in this pro-forma statement of income because it is considered to be non-recurring.

NOTE 3—If the proposed reorganization is not completed Cigol will have acquired a 100% interest in Great Plains for its own account, subject to a right given N & C as part of the arrangement enabling N & C to acquire 22% thereof.

The following reflects the restatement of N & C's pro-forma consolidated statement of income on the exercise of the right.

	Assuming N & C acquires a 22% interest		
	Year Ended December 31, 1973	Nine Months Ended September 30, 1973 1974	
Consolidated revenues.....	\$281,685	\$196,530	\$256,605
Costs and expenses.....	262,584	185,627	235,039
Minority interests.....	5,026	3,169	5,915
Income before extraordinary item.....	14,075	7,734	15,651
Net income.....	14,075	7,734	14,054
Earnings per Common Share			
before extraordinary item.....	\$.70	\$.32	\$.91
net income.....	\$.70	\$.32	\$.79

NOTE 4—See Note (d) to the consolidated statement of income of N & C as to method of computation of per share earnings.

CANADIAN INDUSTRIAL GAS & OIL LTD.

UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET GIVING EFFECT TO THE ACQUISITION OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. BEFORE THE REORGANIZATION

(in thousands of Canadian dollars)

The following unaudited pro-forma condensed balance sheet at September 30, 1974 gives effect to the acquisition by Cigol of 100% of the outstanding shares of Great Plains before the reorganization. The acquisition has been accounted for as a purchase as if it had been completed at that date. This pro-forma condensed balance sheet should be read in conjunction with the consolidated balance sheets of Cigol and Great Plains, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	<u>Cigol</u>	<u>Great Plains</u>	<u>Pro-forma Adjustments Add (Deduct)</u> (Note 1)	<u>Cigol Pro-forma</u>
ASSETS				
Current assets.....	\$ 23,178	\$ 15,673	(a) \$ (2,600) (b) (5,700)	\$ 30,551
Investments.....	22,542			22,542
Property, plant and equipment, less accumulated depreciation and depletion.....	136,268	75,081	(a) 23,549 (b) (1,300)	233,598
Other assets.....	2,075	235		2,310
	<u>\$184,063</u>	<u>\$ 90,989</u>	<u>\$ 13,949</u>	<u>\$289,001</u>
LIABILITIES AND EQUITY				
Current liabilities.....	\$ 14,614	\$ 16,508	(b) \$ (7,000)	\$ 24,122
Bank loans.....	31,471		(a) \$ 93,000	124,471
Long-term debt.....	14,760	2,430		17,190
Deferred income taxes.....	39,321	19,580	(a) (19,580)	39,321
Minority interests.....	2,010			2,010
SHAREHOLDERS' EQUITY				
Capital stock.....	29,283	3,246	(a) (3,246)	29,283
Contributed surplus.....	173	25,258	(a) (25,258)	173
Retained earnings.....	52,431	23,967	(a) (23,967)	52,431
	<u>\$184,063</u>	<u>\$ 90,989</u>	<u>\$ 13,949</u>	<u>\$289,001</u>

CANADIAN INDUSTRIAL GAS & OIL LTD.

**NOTES TO UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET
GIVING EFFECT TO THE ACQUISITION OF 100% OF
GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.
BEFORE THE REORGANIZATION**

NOTE 1 For purposes of the pro-forma condensed balance sheet the following adjustments were made:

(a) The acquisition of all of the outstanding shares of Great Plains for \$95,600,000 (subject to certain adjustments) of which \$93,000,000 is to be financed by a term bank loan repayable over ten years bearing interest as to \$43,000,000 at 1% over the bank prime rate (increasing to 2% in various stages through the term of the loan) and as to \$50,000,000 at $\frac{3}{4}$ of 1% above bankers' acceptance rates (such rate would have been approximately 9.8% in the nine months ended September 30, 1974; 7.4% in the year ended December 31, 1973). The loan will be secured by a pledge of the shares of Great Plains. Annual repayments, which commence in 1976, are as follows:

1976—\$6,000,000, 1977—\$8,000,000, 1978—\$8,000,000, 1979—\$8,000,000, with increasing amounts due during the balance of the term.

On consolidation, the excess of the cost of the shares of Great Plains over their underlying book value at the date of acquisition, \$23,549,000 is included in property, plant and equipment on the company's consolidated balance sheet and will be amortized in the future on the same basis as petroleum and natural gas rights. See note 1 (a) to the unaudited pro-forma condensed statement of income of Cigol giving effect to the acquisition of Great Plains.

(b) The transfer of certain properties (net) by Great Plains to and from an affiliated company in return for a note of \$1,300,000 and the repayment by Great Plains of the amount due to the parent company by the transfer of the note (\$1,300,000) and cash of \$5,700,000.

NOTE 2 N & C will have a right to acquire 22% of the shares of Great Plains, which, if exercised, would increase Cigol's current assets by \$572,000, reduce the excess cost by \$9,488,000, reduce the bank loans by \$20,460,000 and establish a further minority interest of \$11,544,000.

CANADIAN INDUSTRIAL GAS & OIL LTD.

UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE ACQUISITION OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. BEFORE THE REORGANIZATION

(in thousands of Canadian dollars)

The following unaudited pro-forma condensed statement of income for the year ended December 31, 1973 and for the nine months ended September 30, 1973 and September 30, 1974 gives effect to the acquisition by Cigol of 100% of the outstanding shares of Great Plains before the reorganization. The acquisition has been accounted for as a purchase as if it had been made with effect as of January 1, 1973. This statement should be read in conjunction with the consolidated statements of income of Cigol and of Great Plains and other consolidated financial statements, including the notes thereto, appearing elsewhere in this Information Circular and Proxy Statement.

	Year Ended December 31, 1973				Nine Months Ended September 30,	
	Cigol	Great Plains	Pro-forma Adjustments Add (Deduct) (Note 1)	Cigol Pro-forma	1973 Cigol Pro-forma	1974 Cigol Pro-forma
REVENUE						
Sales, service and other operating revenue.....	\$58,335	\$16,527	\$	\$74,862	\$51,314	\$72,636
Interest and other income.....	629	2,208		2,837	1,912	2,191
	<u>58,964</u>	<u>18,735</u>		<u>77,699</u>	<u>53,226</u>	<u>74,827</u>
COSTS AND EXPENSES						
Gas and other merchandise purchased and selling, operating and administrative expenses	31,163	4,891		36,054	23,869	32,452
Interest.....	2,370	1,406	(c) 7,700	11,476	8,149	11,862
Depletion, depreciation and mineral exploration.....	9,363	4,832	(a) 2,444 (b) 772	17,411	12,675	13,179
Minority interests.....	68			68	132	125
	<u>42,964</u>	<u>11,129</u>	<u>10,916</u>	<u>65,009</u>	<u>44,825</u>	<u>57,618</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM....	16,000	7,606	(10,916)	12,690	8,401	17,209
Income taxes.....	6,085	2,521	(d) (3,174)	5,432	3,909	7,962
INCOME BEFORE EXTRAORDINARY ITEMS.....	9,915	5,085	(7,742)	7,258	4,492	9,247
EXTRAORDINARY ITEMS						
Writedown of investment, net of deferred income taxes....						(2,334)
Premium paid and debenture costs written off (net of income taxes).....						(1,908)
NET INCOME.....	<u>\$ 9,915</u>	<u>\$ 5,085</u>	<u>\$(7,742)</u>	<u>\$ 7,258</u>	<u>\$ 4,492</u>	<u>\$ 5,005</u>
Weighted Average Number of Common Shares Outstanding (000's omitted).....				<u>21,490</u>	<u>21,438</u>	<u>21,644</u>
EARNINGS PER COMMON SHARE						
—before extraordinary items.				\$.34	\$.21	\$.43
—net income.....				\$.34	\$.21	\$.23

CANADIAN INDUSTRIAL GAS & OIL LTD.

NOTES TO UNAUDITED PRO-FORMA CONDENSED STATEMENT OF INCOME GIVING EFFECT TO THE ACQUISITION OF 100% OF GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD. BEFORE THE REORGANIZATION

NOTE 1 For purposes of the pro-forma condensed statement of income the following adjustments were made:

- (a) depletion of petroleum and natural gas rights which includes the excess cost arising on the acquisition and excludes the properties transferred by Great Plains to an affiliated company has been provided on the unit-of-production basis based on the total estimated recoverable reserves of Cigol and Great Plains.
- (b) depreciation has been calculated on the fair value of the plant and equipment acquired on the same basis as Cigol.
- (c) interest has been provided on the term bank loan of \$93,000,000 at the applicable rates in effect during the periods.
- (d) the adjustment reflects the tax effect of changes in interest expense and depreciation.

NOTE 2 The payment arrangement amounting to \$1,200,000, as described in note 7(b) to the consolidated financial statements of Great Plains, has not been included in this pro-forma statement of income because it is considered to be non-recurring.

NOTE 3 If the proposed reorganization of N & C and Cigol is not completed Cigol will have acquired a 100% interest in Great Plains for its own account, subject to a right given N & C as part of the arrangement enabling N & C to acquire 22% thereof.

The following reflects the restatement of Cigol's pro-forma consolidated statement of income on the exercise of the right by N & C.

	Assuming N & C acquires a 22% interest		
	Year Ended December 31, 1973	Nine Months Ended September 30,	
		1973	1974
Revenue.....	\$ 77,699	\$ 53,226	\$ 74,827
Costs and expenses.....	62,562	42,999	55,346
Minority interests.....	1,073	816	1,169
Income taxes.....	6,074	4,359	8,758
Income before extraordinary items.....	7,990	5,052	9,554
Net income.....	7,990	5,052	5,722
Earnings per Common Share			
—before extraordinary items.....	\$.37	\$.24	\$.44
—net income.....	\$.37	\$.24	\$.26

BUSINESS AND PROPERTIES OF N & C

N & C, directly and indirectly through its utility subsidiaries, is engaged in the distribution of natural gas to industrial, commercial and residential fuel consumers in certain areas of the Province of Manitoba (primarily metropolitan Winnipeg), of the Province of Ontario, and of the Province of Quebec (primarily metropolitan Montreal). Its combined system forms one of the largest gas distribution systems in Canada. The population of the communities which it serves is approximately 4,400,000 or 20% of Canada's total population.

In addition to its utility operations, N & C owns approximately 61% of the outstanding Common Shares of Cigol and approximately 82% of the aggregate outstanding Class A (common) and Class B (common) Shares of Coleman.

UTILITY OPERATIONS

General

The utility business of N & C and its subsidiaries is organized into three divisions: the Ontario Division, the Quebec Division and the Manitoba Division.

The Ontario Division consists of the gas distribution operations of N & C and Le Gaz Provincial du Nord de Québec Ltée ("Le Gaz") and the gas transmission operations of Champion Pipe Line Corporation Limited ("Champion"). Le Gaz and Champion are wholly-owned subsidiaries.

The Quebec Division consists of Gaz du Québec, inc. ("Gaz du Québec"), a wholly-owned subsidiary of N & C, and of Gaz Métropolitain, inc. ("Gaz Métropolitain"), approximately 82% of the outstanding Common Shares of which are owned by N & C. Gaz Métropolitain became a subsidiary in 1967 at which time 65% of its outstanding Common Shares were acquired. Between 1967 and 1970 N & C increased its ownership of Common Shares of Gaz Métropolitain from 65% to 82%. The balance of the Common Shares of Gaz Métropolitain is publicly held, and such shares are traded on the Toronto and Montreal Stock Exchanges.

The Manitoba Division consists of Greater Winnipeg Gas Company ("Greater Winnipeg"), which serves metropolitan Winnipeg. N & C owns 99.7% of the outstanding Common Shares of Greater Winnipeg.

Figures given under the heading "Utility Operations" include 100% of the figures for Gaz Métropolitain and Greater Winnipeg.

Gas Revenues, Volumes of Gas Sold and Customers

The following table sets forth selected financial and operating statistics for N & C's utility business for the five years ended December 31, 1973 and for the nine-month periods ended September 30, 1973 and September 30, 1974:

	Year Ended					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
Miles of pipe at end of period— distribution and transmission.....	4,696	4,764	4,871	5,053	5,144	Not available	Not available
Active customers at period-end							
Industrial.....	1,973	2,038	2,072	2,050	2,086	2,090	2,085
Commercial.....	25,319	25,730	26,364	27,179	28,103	27,572	28,900
Residential.....	371,216	369,508	370,985	374,315	376,646	369,527	373,249
Total.....	398,508	397,276	399,421	403,544	406,835	399,189	404,234
Volumes of gas sold (mmcf)							
Industrial, firm.....	54,727	62,334	73,449	84,888	90,805	65,494	76,199
Industrial, interruptible.....	45,248	50,865	49,031	41,254	48,171	36,160	34,482
Commercial.....	26,862	29,118	29,303	33,623	33,847	23,657	30,016
Residential.....	40,600	43,778	43,869	48,499	45,359	31,196	34,597
Total.....	167,437	186,095	195,652	208,264	218,182	156,507	175,294
Gas revenues (000's omitted)							
Industrial, firm.....	\$ 28,836	\$ 33,464	\$ 40,259	\$ 47,310	\$ 56,664	\$ 39,849	\$ 52,436
Industrial, interruptible.....	16,634	19,522	20,790	17,263	21,922	15,635	19,594
Commercial.....	21,778	23,641	24,626	28,160	29,383	20,251	26,368
Residential.....	49,803	53,289	54,381	58,789	57,055	39,182	44,785
Total.....	\$117,051	\$129,916	\$140,056	\$151,522	\$165,024	\$114,917	\$143,183

See "Management's Discussion and Analysis of N & C's Consolidated Statement of Income" as to seasonal factors affecting the utility business.

The following table sets forth numbers of customers at December 31, 1973, and volumes of gas sold and gas revenues for each of the utility divisions of N & C for the year ended December 31, 1973:

	<u>Ontario Division</u>	<u>Quebec Division</u>	<u>Manitoba Division</u>	<u>Total</u>
Active customers				
Residential.....	84,742	177,195	114,709	376,646
Commercial.....	8,981	9,561	9,561	28,103
Industrial.....	376	1,458	252	2,086
Total.....	<u>94,099</u>	<u>188,214</u>	<u>124,522</u>	<u>406,835</u>
Volumes of gas sold (mmcf)				
Residential.....	12,236	14,930	18,193	45,359
Commercial.....	11,406	8,312	14,129	33,847
Industrial, firm.....	61,243	28,261	1,301	90,805
Industrial, interruptible.....	27,787	6,790	13,594	48,171
Total.....	<u>112,672</u>	<u>58,293</u>	<u>47,217</u>	<u>218,182</u>
Gas revenues ('000's omitted)				
Residential.....	\$ 15,330	\$ 24,753	\$ 16,972	\$ 57,055
Commercial.....	9,268	10,140	9,975	29,383
Industrial, firm.....	33,230	22,670	764	56,664
Industrial, interruptible.....	13,070	4,877	3,975	21,922
Total.....	<u>\$ 70,898</u>	<u>\$ 62,440</u>	<u>\$ 31,686</u>	<u>\$165,024</u>

Areas Served by the System

Ontario Division

The Ontario Division is the largest in the system in terms of the size of the area served and the volume of gas sold. It distributes natural gas at various points along the transmission line of TransCanada PipeLines Limited ("TransCanada") from Kenora in the west, near the Manitoba-Ontario border, to a point 80 miles north of Toronto, and in an area extending 200 miles east from Port Hope along the north shores of Lake Ontario and the St. Lawrence River. The Division also distributes natural gas in Sault Ste. Marie and Sudbury, Ontario, and in Rouyn and Noranda in northwestern Quebec near the Ontario border.

In the northern and western areas of this Division, there are a number of large industrial companies engaged in the production and processing of natural resources including timber, nickel, iron, copper, zinc, lead, silver and gold. The Ontario Division serves most of the companies developing these resources and in many cases supplies their entire fuel requirements. In that part of the Division located along the north shores of Lake Ontario and the St. Lawrence River, industrial activity is more diversified and includes both primary and secondary manufacturing.

The 10 largest industrial customers accounted for approximately 43% of the Division's total 1973 revenues, and one such customer, The International Nickel Company of Canada, Limited, accounted for 9.4% of such revenues.

At the present time natural gas has a price advantage over other fuels throughout this region. Average revenue per mcf of the Division for the year ended December 31, 1973 was 63¢ and for the nine-month periods ended September 30, 1973 and September 30, 1974 was 61¢ and 70¢ respectively.

Quebec Division

The area served by the Quebec Division comprises greater Montreal and the two nearby counties of Richelieu and Verchères and also the city of Sherbrooke, 100 miles east of Montreal, which is served by a propane air system. The Montreal area has a population of approximately 3,000,000.

The substantial price increases since mid-1973 of fuel oil have enhanced the potential for growth in sales of natural gas. Natural gas currently has a price advantage over fuel oil. Average revenue per mcf of the Division for the year ended December 31, 1973 was \$1.07 and for the nine-month periods ended September 30, 1973 and September 30, 1974 was \$1.05 and \$1.08 respectively.

Manitoba Division

Metropolitan Winnipeg, the area served by the Division, has a population of approximately 600,000 and is the leading commercial, transportation and distribution centre of the Canadian Mid-West. The severe and lengthy winters in this area result in a large requirement for heating fuels. Owing to the proximity of Winnipeg to gas-producing areas, natural gas is the most economical fuel and, consequently, the Division has been successful in attaching a very high percentage of the residential and commercial heating market. Average revenue per mcf of the Division for the year ended December 31, 1973 was 67¢ and for the nine-month periods ended September 30, 1973 and September 30, 1974 was 65¢ and 73¢ respectively.

Capital Expenditures and Utility Plant

The following tables set forth by category and by division the expenditures for additions to utility plant during the five years ended December 31, 1973:

	1969	1970	1971	1972	1973
	(in thousands of dollars)				
New service lines, meters and regulators.....	\$ 5,280	\$ 3,721	\$ 4,853	\$ 6,408	\$ 6,295
New distribution mains.....	8,087	1,627	1,801	12,996	4,126
Rental appliances.....	8,968	2,413	2,203	1,925	2,748
Improvement of existing distribution facilities.....	6,805	3,209	5,397	4,080	5,196
Gas liquefaction and storage plants.....	5,891	1,552	1,455	4,110	90
Other.....	10,133	4,667	7,247	674	3,290
Total.....	<u>\$45,164</u>	<u>\$17,189</u>	<u>\$22,956</u>	<u>\$30,193</u>	<u>\$21,745</u>
Ontario Division.....	14,655	3,865	6,257	8,918	5,889
Quebec Division.....	24,524	7,738	10,140	15,801	11,097
Manitoba Division.....	5,985	5,586	6,559	5,474	4,759
Total.....	<u>\$45,164</u>	<u>\$17,189</u>	<u>\$22,956</u>	<u>\$30,193</u>	<u>\$21,745</u>

At December 31, 1973, the utility divisions owned gas appliances having an original cost of \$39,251,000 which were installed on the premises of commercial and residential customers generally under monthly leases.

At September 30, 1974, the gross and net book values of property, plant and equipment of the utility divisions were approximately:

	Gross	Net
	(in thousands of dollars)	
Ontario Division.....	\$157,067	\$132,766
Quebec Division.....	212,825	177,808
Manitoba Division.....	89,990	71,381
Total.....	<u>\$459,882</u>	<u>\$381,955</u>

The Ontario and Quebec Divisions operate gas liquefaction and storage plants, located near Sudbury, Ontario and in Montreal, to provide additional gas on days of peak demand during the winter months and to provide economies in gas costs. These plants have storage capacities of 600,000 mcf and 2,000,000 mcf, respectively.

The expenditures for additions to utility plant in 1974 are estimated to have been approximately \$41,600,000, of which \$13,000,000 were for the Ontario Division, \$21,100,000 for the Quebec Division, and \$7,500,000 for the Manitoba Division. As of September 30, 1974, approximately \$19,300,000 of these expenditures had been made. The estimated expenditures for additions to utility plant in 1975 are \$34,000,000, which will be financed from N & C operating revenues, through available N & C bank lines of credit, and from the proceeds of the issue of N & C securities.

Substantially all of the utility properties and facilities are subject to first mortgage liens under the trust indentures securing outstanding bonds.

Natural Gas Supply

Most natural gas for N & C's utility divisions is currently purchased from TransCanada. Recently the Manitoba and Quebec Divisions contracted to purchase quantities of gas directly from other parties for delivery by TransCanada, as outlined below.

The principal contracts under which the Ontario Division is currently purchasing natural gas terminate on various dates from 1978 to 1994. The Division is entitled under all gas supply contracts to purchase in the current contract year a maximum aggregate amount of 334,850 mcf per day on a 90% annual load factor basis, which in effect means that the Division must pay for (if tendered) at least 90% of the gas which it is entitled to purchase during the contract year whether or not it takes delivery of such gas. (A contract year runs from November 1 to October 31.) If the amount of gas actually taken is less than that required to be paid for, delivery of the deficiency may be taken during the following two contract years, at the then current price. The average load factors for the year ended December 31, 1973 and for the contract year ended October 31, 1974 were 92.5% and 93.5% respectively. The average cost per mcf of all natural gas purchased by the Ontario Division was 44.4¢ for the year ended December 31, 1973 and 50.7¢ for the contract year ended October 31, 1974.

The principal contracts under which the Quebec Division is presently purchasing natural gas from TransCanada terminate in 1979, 1988, 1990, 1993 and 1994. The maximum aggregate delivery under all contracts with TransCanada in the current contract year is 221,200 mcf per day on a 90% annual load factor basis. The average load factors for the year ended December 31, 1973 and for the contract year ended October 31, 1974 were 91.5% and 95.5% respectively. The average cost per mcf of all gas purchased by the Quebec Division was 49.7¢ for the year ended December 31, 1973 and 56.1¢ for the contract year ended October 31, 1974. The Quebec Division has contracted to purchase additional gas supplies from Pan-Alberta Gas Limited for delivery by TransCanada commencing on November 1, 1974 for a term of 6 years at the rate of 35,500 mcf per day; negotiations are proceeding to extend the term of this contract, but no assurance can be given that such negotiations will succeed. The requisite approvals to remove this gas from Alberta have been given by the Alberta government. The National Energy Board ("NEB") has approved the construction by TransCanada of additional pipeline facilities to transport this gas. Deliveries pursuant to this contract commenced on November 1, 1974 at a rate of 18,000 mcf per day and it is expected that delivery will increase to the contract rate over a period of several months.

The principal contracts under which the Manitoba Division is presently purchasing natural gas from TransCanada terminate on various dates from 1977 to 1994. Under all contracts with TransCanada, the Manitoba Division is entitled to purchase in the current contract year a maximum aggregate amount of 199,000 mcf per day on a 65% annual load factor basis. The average load factors for the year ended December 31, 1973 and for the contract year ended October 31, 1974 were 66.2% and 69.1% respectively. The average cost per mcf of all gas purchased by the Manitoba Division was 36.4¢ for the year ended December 31, 1973 and 40.6¢ for the contract year ended October 31, 1974. In addition to these supplies, the Manitoba Division has contracted to purchase from Provident Resources Limited additional gas to be delivered by TransCanada commencing on November 1, 1974 which at the contracted delivery rate of 10,000 mcf per day would be deliverable over a term of approximately 12 years. The status of regulatory approvals and facilities construction is the same as for the Quebec Division's purchase from Pan-Alberta Gas Limited discussed above. N & C anticipates that deliveries at the contracted rate pursuant to this contract will commence by the end of January, 1975.

The following table sets forth the aggregate deliveries to be made by TransCanada and the other suppliers referred to above under existing gas supply contracts assuming delivery of contracted take-or-pay load factor volumes:

<u>Contract Year Commencing November 1</u>	<u>Ontario Division</u>	<u>Manitoba Division</u>	<u>Quebec Division</u>	<u>N & C Total</u>
	(in billions of cubic feet)			
1974	110	51	84	245
1975	110	51	84	245
1976	106	49	82	237
1977	106	22	82	210
1978	56	22	82	160
1979	56	22	34	112
1980	56	22	34	112
1981-1993	335	148	298	781

N & C anticipates that natural gas to be supplied under these contracts will satisfy projected customer requirements for the calendar year 1975. However, no assurance can be given at this time that TransCanada will not curtail deliveries under these contracts during 1976 and subsequent years due in part to deliverability problems, discussed below. TransCanada has informed N & C that, unless it is successful in acquiring additional supplies for removal from Alberta, it will be unable to satisfy the forecasted market demand of its Canadian customers until the availability of frontier reserves is assured. The N & C utility divisions intend to seek additional quantities of gas in order to meet increased demand in 1975 and subsequent years, but there is no assurance that such additional quantities can be obtained.

In a recent statement on natural gas, Ontario's Minister of Energy indicated government opposition to the expansion by Ontario gas utilities of Ontario gas markets until TransCanada assures them of sufficient gas supplies to allow them to maintain current market levels. He also indicated that authority for allocation of natural gas among Ontario users on a priority basis would be given to the Ontario Energy Board.

TransCanada recently estimated that as of October 31, 1974 it had under long-term gas purchase contracts approximately 23.4 trillion cubic feet of remaining gas reserves in Western Canada. The withdrawal by TransCanada from these reserves in the 12 months ended October 31, 1974 was 1.244 trillion cubic feet. Although the volume of gas which TransCanada has under contract exceeds the volume of gas which it has contracted to sell, TransCanada has indicated that it will have to purchase additional volumes of gas or it will encounter deliverability problems normally occurring from time to time due to declining reservoir pressures.

The NEB estimated in a January, 1974 decision that, as of June 30, 1973, the remaining total supply of natural gas in Canada (excluding the Mackenzie Delta, Beaufort Sea and Arctic Islands reserves not yet deemed to be marketable) was 54.6 trillion cubic feet. Current annual marketable gas production in Canada is approximately 2.6 trillion cubic feet, of which approximately 1.02 trillion cubic feet is exported to U.S. customers under existing gas export licences. Under the National Energy Board Act, the NEB is permitted to authorize additional gas exports only if it determines that the gas to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada. Since August, 1970, the NEB has approved only the export of a small quantity of the natural gas derivative ethane. Other applications for the export of natural gas are pending the results of a NEB review of Canadian gas supply and requirements.

Large reserves of natural gas have been indicated to exist in the Mackenzie Delta and off-shore islands area of Canada's Arctic and active drilling programs are presently under way to prove up additional reserves. Study projects such as Canadian Arctic Gas Study Limited (in which N & C is a participant) and Polar Gas Limited are conducting research and preparing plans for facilities to bring these reserves to market early in the 1980's, subject to governmental approvals, obtaining financing, and resolution of remaining technical problems.

Regulation

Under the National Energy Board Act the tariffs for the sale of natural gas by an interprovincial gas transmission company, including sales by TransCanada to the utility divisions under the contracts described above, are subject to regulation by the NEB. In December, 1973, TransCanada submitted two applications to the NEB for increases in TransCanada's existing tariffs. The decision on the first application (relating to the rate base and the rate of return) was rendered by the NEB on July 22, 1974 and resulted in an approximate average increase of 2¢ per mcf for the three utility divisions effective September 1, 1974. The date for the hearing on the second application has not yet been announced. In the second application TransCanada is seeking to increase the amounts which it charges for depreciation and income taxes in its rates. N & C estimates that, if such application is approved by the NEB, an increase would result in the average price of natural gas of approximately 12.1¢ per mcf in the case of the Ontario Division, 8.7¢ per mcf in the case of the Manitoba Division, and 17.4¢ per mcf in the case of the Quebec Division. As a result of a further application on August 9, 1974 the NEB granted TransCanada a rate increase effective November 1, 1974 which passes on to TransCanada's customers increases in its cost of gas. This represents increases to the Ontario Division of 23.6¢ per mcf, to the Manitoba Division of 22.5¢ per mcf, and to the Quebec Division of 24.1¢ per mcf. TransCanada has made two further applications to the NEB for minor rate increases. The first is to reflect increased operating costs, while the second is to permit TransCanada to include in its rate base the cost of a study of coal gasification. Hearings were held on each of the applications during January, 1975.

The Federal Minister of Energy, Mines and Resources has stated that the Federal Government believes that an increase in the price of natural gas consumed in Canada is necessary in order to induce additional supplies and to restrain inefficient and wasteful uses of this high quality fuel arising from its relative cheapness compared to fuel oil alternatives. The Minister has announced that the Government will take steps (including legislation giving it power to set natural gas prices) to insure that domestic natural gas prices do not jump drastically next fall but instead increase in stages over the next few years to a price level competitive with the domestic oil price.

N & C and its utility subsidiaries are subject to regulation with respect to such matters as rates, adequacy of service, public safety aspects of construction methods and materials, acquisition, extension and abandonment of certain facilities, accounting and depreciation. Regulatory approval is not required for the issuance of securities of N & C, but regulatory approval is required for the issuance of securities by the utility subsidiaries other than Champion. Regulation is by the Ontario Energy Board ("OEB") in the case of N & C, by the Public Utilities Board of Manitoba in the case of Greater Winnipeg, by the Electricity and Gas Board of Quebec in the cases of Gaz Métropolitain, Le Gaz and Gaz du Québec, and by the NEB in the case of Champion.

Rates currently being charged by the utility divisions have all been approved by the respective regulatory authorities. In 1973 all three utility divisions received rate orders from the provincial regulatory authorities to increase prices to fixed-rate customers. For the most part, these rate increases were required to recover gas cost increases granted by the NEB to TransCanada. N & C anticipates that its utility divisions will be able to pass on to their customers higher costs resulting from recent NEB-approved price increases without undue delay. Such price escalations are provided for in the gas sale contracts with most of the industrial customers of the utility divisions. In the case of other customers the utility divisions will require the approval of the provincial regulatory authorities.

In the case of the Ontario Division, a full rate application (to establish current rate base and the rate of return) was recently heard by the OEB. A decision on this application is expected in early 1975. The Ontario Division applied to the OEB for an interim rate increase to reflect the NEB-approved TransCanada rate increase which took effect on September 1, 1974. In its decision of September 20, 1974, the OEB refused the application on the basis that the full rate hearing was then in progress and would consider this matter. The OEB recently approved an interim rate increase to reflect the NEB-approved TransCanada rate increase of 23.6¢ per mcf effective November 1, 1974.

The Manitoba Division completed a full rate hearing in June, 1974 and was awarded an over-all rate of return of 9.94% on rate base. It has received approval from the Manitoba Public Utilities Board to recover the NEB-approved TransCanada rate increases which became effective on September 1, 1974 and on November 1, 1974.

The Quebec Division will commence a full rate hearing on January 28, 1975. The Division has received approvals from the Quebec Electricity and Gas Board to recover from its customers a substantial portion of the NEB-approved TransCanada rate increases effective on September 1, 1974 and on November 1, 1974 pending the determination of rate base and cost of service at the full rate hearing.

Franchises

Each utility division has franchises permitting it to distribute gas. In the Ontario Division there are franchises for each community served. Each franchise is for a minimum period of 20 years from its date of commencement and none expires before 1978. If in the opinion of the OEB public convenience and necessity appear to require a renewal or extension of any franchise, the Board has the power to grant such renewal or extension for such period and upon such terms as it considers appropriate. The majority of the franchises provide that within 12 months after expiration the distribution system may be removed or the municipality may require its sale to persons designated by it. Champion's pipeline operations are covered by a certificate of public convenience and necessity granted by the NEB. The Quebec National Assembly has granted Le Gaz the right to distribute gas in the Rouyn-Noranda district.

In the Manitoba Division, Greater Winnipeg was granted rights to distribute gas in metropolitan Winnipeg through 1983 by an Act of the Manitoba Legislature in 1959 which contains provisions for renewal of this franchise to be negotiated for further periods of from 10 to 25 years. Greater Winnipeg also holds franchises for Selkirk, Gimli, Stonewall and Beauséjour and for parts of several municipalities contiguous to metropolitan Winnipeg and Selkirk, all of which expire in 1983. In each case Greater Winnipeg may be required to sell its distribution system to municipal authorities or others on expiration.

In the Quebec Division, the Quebec National Assembly has granted Gaz Métropolitain the right to distribute gas on the island of Montreal and in the municipalities situated within a radius of 15 miles from that island. Such right will expire in 2000. In 1962, the Quebec National Assembly extended Gaz Métropolitain's franchise area to include the counties of Verchères and Richelieu. Gaz du Québec, under an agreement with the city of Sherbrooke, has a franchise to service that city until 1977.

Greater Winnipeg and Gaz du Québec hold exclusive franchises for their distribution areas. While the franchises of N & C, Gaz Métropolitain and Le Gaz are non-exclusive, no other company distributes natural gas in the franchised areas.

Personnel

At September 30, 1974, the utility divisions had 1,965 employees. The utility divisions have contracts with labour unions covering most hourly-paid and some salaried employees, and N & C believes that its utility divisions have satisfactory labour relations.

CIGOL OPERATIONS

For information with respect to the operations of Cigol, see "Business and Properties of Cigol".

COLEMAN OPERATIONS

General

N & C owns approximately 82% of the aggregate outstanding Class A (voting common) Shares and Class B (non-voting common) Shares of Coleman. The balance of such shares is publicly held, and such shares are traded on the Vancouver Stock Exchange.

Coleman is engaged in the exploration for and production of coal in the Crowsnest area of southern Alberta.

Coleman's assets reflected in the unaudited consolidated balance sheet of N & C at September 30, 1974 are less than 4% of the total assets. Coleman's revenue reflected in the unaudited pro-forma condensed statement of income for the years subsequent to acquisition has been less than 6% of consolidated N & C revenue. Only in 1974 through higher prices for coal deliveries and production controls has Coleman contributed to consolidated N & C net income.

Land Holdings and Coal Reserves

At September 30, 1974, Coleman had Crown leases covering the coal rights to 36,278 acres and owned 22,779 acres of freehold mineral rights. In addition to the coal and mineral properties, Coleman had petroleum and natural gas rights on 5,886 acres of the freehold mineral acreage. Substantially all of the Crown coal leases and the freehold mineral rights are situated in the Crowsnest Pass area of southwestern Alberta.

Crown coal mining leases in Alberta are for an initial term of 21 years and are subject to payment of an annual rental of \$1.00 per acre per year and a royalty of 10¢ per ton of coal produced. Such coal leases are renewable for one further term of 21 years and further terms of 21 years subject to such terms and conditions as may be prescribed. Of the Coleman leases, the initial terms of leases covering 25,278 acres expire between 1981 and 1992 and the first or subsequent renewal terms of leases covering 11,000 acres expire between 1976 and 1993.

In reports dated November 8 and December 13, 1974, John T. Boyd Company, Pittsburgh, Pennsylvania, U.S.A., estimated certain of Coleman's coal reserve holdings as of September 1, 1974 as follows:

	Recoverable Clean Short Tons (1) (millions)		
	Proven (2)	Probable (2)	Total
Deep reserves.....	4.7	13.0	17.7
Strip reserves.....	8.4	—	8.4
Total reserves.....	13.1	13.0	26.1

(1) *Recoverable clean short tons*—represent the amount of clean coal that is available for delivery after allowing for normal coal losses during mining operations, for coal necessarily left in the ground for safety and other reasons, and for losses during working or processing of the coal. The recovery factors used to reflect losses before the coal reaches the processing plant, based on mining experience and judgment, are

85% for strip mining and 40% for underground mining. At present the average yield of clean coal to raw coal is approximately 76%.

(2) John T. Boyd Company defined reserves in the following manner:

Proven Reserves—are considered to be proven when coal data points (seam intersections by drill holes, good exposed measured sections, underground mining adits, or strip pits) are on nominal 2,640-foot (one-half mile) spacings or less, and express clear geologic continuity or similarity. The limits of proven reserves from an outlying or peripheral data point are 1320 feet (one-fourth mile).

Probable Reserves—are considered to be probable when coal data points are drilled on 5280-foot (one mile) spacings or less, but with strong evidence of coal continuity (i.e., mineable thickness observed in nearby drill holes, adits or mines). Outer limits of probable reserves are considered to be 2640 feet (one-half mile) from good data points that apparently lie in the same structure.

These reserves are all "assigned" reserves—that is, they can be extracted, processed and sold using existing facilities. All of the above reserves will have a sulphur content by weight ranging from 0.4% to 0.6% on an air dry basis.

Coleman's proven recoverable coal reserves are sufficient to enable the company to meet its existing contractual commitments.

In addition to the proven and probable reserves above, limited exploration, regional information, and preliminary technical studies have revealed substantial additional tonnages of in-place coal deposits on the balance of the company's holdings totalling 59,057 acres. Further exploration and related economic and feasibility studies are being carried out to determine whether or not these deposits can be commercially mined.

Production

Coleman is currently producing coal from underground and strip mines. Coal is being extracted from the Vicary Creek underground mine by use of mechanical mining equipment using the room and pillar method. The strip mines are located at Tent Mountain, which is approximately 16 miles west of Coleman on the Alberta-British Columbia border. The raw coal from the mines is hauled by truck to Coleman where it is washed to remove ash to meet contract specifications. Since the process of washing the coal involves removing or filtering out rock and other non-combustible materials, the amount of clean coal produced at the plant will be less than the amount of raw coal which entered the plant. The clean coal is then loaded into railway cars for the 671-mile shipment to ship-loading facilities at Port Moody, British Columbia.

Coal production for the five fiscal periods ended December 31, 1973, and for the nine-month periods ended September 30, 1973 and September 30, 1974 was as follows:

	Year Ended March 31,		Nine Months Ended December 31,	Year Ended December 31,		Nine Months Ended September 30,	
	1970	1971	1971	1972	1973	1973	1974
Underground.....	653,092	700,968	486,832	710,001	797,339	608,173	419,385
Strip.....	370,321	330,708	337,974	292,032	257,394	195,728	490,111
Raw Coal Production..	<u>1,023,413</u>	<u>1,031,776</u>	<u>824,811</u>	<u>1,002,033</u>	<u>1,054,731</u>	<u>803,901</u>	<u>909,496</u>
Clean Coal Production..	<u>760,488</u>	<u>846,379</u>	<u>655,604</u>	<u>815,945</u>	<u>878,915</u>	<u>673,616</u>	<u>658,798</u>

Revenue and Costs

The average selling price including subvention payment and the average cost (freight and dock charges and costs of production) for the five fiscal periods ended December 31, 1973, and for the nine-month periods ended September 30, 1973 and September 30, 1974 were as follows:

	Year Ended March 31,		Nine Months Ended December 31,	Year Ended December 31,		Nine Months Ended September 30,	
	1970	1971	1971	1972	1973	1973	1974
Average Selling Price, per ton.....	\$14.61	\$14.82	\$14.17	\$15.24	\$17.40	\$17.46	\$26.69
Cost, per ton(1)(2).....	10.56	9.96	10.79	10.83	12.58	11.89	16.35

(1) The cost per ton has been reduced by freight subsidies of \$2.44 per ton in the year ended March 31, 1970 and \$1.52 in the year ended March 31, 1971.

- (2) Excludes selling, administration and general expenses, interest, depreciation, depletion and amortization of preproduction and development expenses which in the aggregate amounted to \$1,827,046 and \$2,428,885 for the years ended March 31, 1970 and 1971 respectively, \$1,888,246 in the nine months ended December 31, 1971, \$3,375,124 and \$4,878,395 for the years ended December 31, 1972 and 1973 respectively, and \$3,938,442 and \$3,975,861 for the nine months ended September 30, 1973 and 1974 respectively. If these costs were to be allocated on a unit basis (equally among tonnage) they would amount, on a per ton basis, to: \$1.09 in 1970, \$2.87 in the year ended March 31, 1971, \$1.88 in the nine months ended December 31, 1971, \$4.60 in 1972, \$5.55 in 1973 and \$5.84 and \$6.03 in the nine months ended September 30, 1973 and 1974, respectively.

Environment

Since 1969 the Provincial Government has enacted laws and associated regulations to ensure the cleaning up of old mining areas, reducing damage to the environment caused from exploration and a rigid control on dust and water pollution from production operations and processing plants.

These regulations, and a Government policy of requiring cash performance bonds plus additional cash deposits on a tonnage basis in respect of strip mines, have been implemented to ensure final rehabilitation of production sites and have resulted in increasing costs to Coleman.

Environmental expenditures were negligible through 1973 and amounted to approximately \$275,000 in 1974. Environmental expenditures for 1975 are estimated to be approximately \$300,000.

Marketing

Substantially all of Coleman's sales are under the following contracts with Marubeni Corporation ("Marubeni") and Toyo Menka Kaisha, Ltd. ("Toyo Menka") providing for the sale of metallurgical coking coal:

<u>Contract Date</u>	<u>Expiry Date</u>	<u>Annual Long Clean Tons*</u>
April 12, 1967.....	March 31, 1982	1,000,000
August 31, 1970.....	March 31, 1982	500,000

*Marubeni and Toyo Menka have the option to increase or decrease annual deliveries by up to 10% of the amount specified in each contract. A long ton is 112% of a short ton.

Although Marubeni and Toyo Menka are the purchasers named in the above contracts with Coleman, it is understood that Marubeni and Toyo Menka have agreed to resell the coal so acquired for ultimate consumption by the following Japanese users: Nippon Steel Corporation, Nippon Kokan Kabushiki Kaisha, Kawasaki Steel Corporation, Sumitomo Metal Industries Ltd., Kobe Steel Ltd., Nissin Steel Company Ltd., Nakayama Steel Ltd. and Osaka Iron and Steel Company Ltd.

An interim agreement dated March 14, 1974 provides, without penalty, for the delivery of 680,000 long clean tons during the period from April 1, 1974 to March 31, 1975 as compared with the 1,500,000 long clean tons called for under the contracts. The interim agreement also adjusts favourably to Coleman the quality specifications and pricing provisions of the contracts. Prior to the expiration of this interim agreement, Coleman expects to be able to negotiate a further interim agreement of a similar nature. Assuming the necessary governmental approvals for a new strip mine are obtained, the design production from all mining operations in 1975 is forecast at 1,200,000 clean short tons.

In addition to the above-mentioned sales, metallurgical coking coal markets other than Japan were supplied with bulk samples under two spot sales during 1974. Coleman is also actively exploring potential thermal coal markets.

Capital Expenditures

Capital expenditures for the last five fiscal periods are as follows:

	<u>Year Ended March 31,</u>		<u>Nine Months Ended December 31,</u>	<u>Year Ended December 31,</u>	
	<u>1970</u>	<u>1971</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Plant and equipment.....	\$1,578,665	\$3,379,101	\$2,038,199	\$1,186,894	\$ 612,357
Mine development.....	364,427	1,008,095	1,891,900	2,482,812	1,989,188

Coleman expects to have spent \$890,000 on plant and equipment, \$630,000 on exploration, and \$6,600,000 on mine development in 1974. In addition to the foregoing, Coleman has committed itself to acquire by lease or purchase by mid-1976 \$4,500,000 of equipment to resume operations at a strip mine.

Personnel

At September 30, 1974 Coleman had 546 employees, 482 of whom are covered by union contracts. Coleman believes that it has satisfactory labour relations.

MANAGEMENT OF N & C

Directors

All of the present Directors of N & C were elected at the 1974 annual meeting of shareholders to serve until the 1975 annual meeting.

The following table sets forth as to each Director of N & C (i) the year in which he first became a Director, (ii) his present principal occupation, and (iii) the approximate number of Common Shares of N & C of which he is, directly or indirectly, the beneficial owner:

<u>Name</u>	<u>Director Since</u>	<u>Principal Occupation(1)</u>	<u>Common Shares Beneficially Owned(2)</u>
Peter A. Allen	1971	Chief Executive Officer of The Little Long Lac Group	1,000
Edward G. Battle*	1974	President of N & C	1,358 ⁽³⁾
Edmund C. Bovey*	1965	Chairman of the Board of N & C	16,000 ⁽⁴⁾
C. Spencer Clark*	1954	Chairman of the Board of Cascade Natural Gas Corporation (gas distribution company); also Vice-Chairman of the Board of N & C	6,941 ⁽⁵⁾
E. Jacques Courtois, Q.C.*	1969	Partner in the law firm of Laing, Weldon, Courtois, Clarkson, Parsons & Tétrault and Chairman of the Board of Gaz Métropolitain	50 ⁽⁶⁾
Robert B. Craddock	1962	Retired executive of N & C	2,649 ⁽⁷⁾
M. Clifford Deans	1956	Chairman of the Board of Bankers Securities of Canada Limited (investment dealers); Honorary Vice-Chairman, Crang & Ostiguy Inc. (investment dealers)	2,500
Edward A. Galvin*	1966	Chairman of the Board and President of Cigol	8,320 ⁽⁸⁾
F. A. M. Huycke, Q.C.*	1972	Partner in the law firm of Osler, Hoskin & Harcourt	100
Raymond Lavoie	1972	President and Chief Executive Officer of Crédit Foncier Franco-Canadien (mortgage company)	250 ⁽⁹⁾
A. Searle Leach	1966	Chairman of the Board of Federal Industries Ltd. (holding company)	5,998 ⁽¹⁰⁾
V. Theodore Low	1962	Limited partner of Bear, Stearns & Co. (investment bankers)	10,000
Donald McKelvie	1969	Chairman of the Board of Northern Telephone Limited (telecommunications)	1,090
Blanche Noyes	1960	Senior Vice-President of Hornblower & Weeks-Hemphill, Noyes Inc. (investment bankers)	4,520
Linden J. Richards	1974	Oil and gas consultant and Chairman of the Board of Quintana Exploration Co. (oil and gas exploration, development and production)	—

*Member of the Executive Committee of the Board of Directors; Mr. Galvin is the chairman of the Executive Committee.

- (1) Each of the Directors has been associated with the company or firm with which he is presently associated or an affiliate thereof for at least the past five years, except that prior to June, 1974 Mr. Allen was an executive of John C. L. Allen Limited, prior to August, 1971 Mr. Craddock was an executive of Gaz Métropolitain, and prior to December, 1971 Mr. Richards was an executive of Hudson's Bay Oil and Gas Company Limited.
- (2) The information as to securities beneficially owned contained in the table and the notes thereto, not being within the knowledge of N & C, has been furnished by the respective Directors individually. It does not include shares beneficially owned by wives of Directors as follows: Mr. Bovey—100 Common Shares of N & C; Mr. Galvin—5,000 Common Shares of Cigol; Mr. Low—1,000 Common Shares of N & C.
- (3) Mr. Battle beneficially owns 23,593 Common Shares of Cigol and beneficially owns five Convertible Notes of Cigol due July 31, 1979 in the aggregate principal amount of \$216,000 bearing interest at $\frac{1}{2}$ of 1% above the prime lending rate of a Canadian chartered bank (see "Management of Cigol—Remuneration of and Transactions with Management" for a description of the Convertible Notes).
- (4) Mr. Bovey also beneficially owns 2,203 Common Shares of Cigol.
- (5) Mr. Clark also beneficially owns 3 Common Shares of Cigol.
- (6) Mr. Courtois also beneficially owns 22 Common Shares of Gaz Métropolitain.
- (7) Mr. Craddock also beneficially owns 100 Common Shares each of Gaz Métropolitain and of Cigol.
- (8) Mr. Galvin also beneficially owns 600 Second Preference Shares, Series B of N & C, Warrants expiring on June 1, 1977 to purchase 375 Common Shares of N & C, 27,917 Common Shares of Cigol, and five Convertible Notes of Cigol due July 31, 1979 in the aggregate principal amount of \$216,000 bearing interest at $\frac{1}{2}$ of 1% above the prime lending rate of a Canadian chartered bank (see "Management of Cigol—Remuneration of and Transactions with Management" for a description of the Convertible Notes).
- (9) Mr. Lavoie also beneficially owns 100 Common Shares of Gaz Métropolitain.
- (10) Mr. Leach also beneficially owns one Common Share of Greater Winnipeg.

The Directors and Senior Officers of N & C as a group beneficially own, directly or indirectly, 61,652 Common Shares of N & C and 53,816 Common Shares of Cigol.

Remuneration of and Transactions with Management

The following table sets forth the remuneration paid or accrued in 1973 and 1974 by N & C and its subsidiaries to certain named Officers and Directors of N & C and the total remuneration paid or accrued in 1973 and 1974 by N & C and its subsidiaries to the individuals who during 1973 or 1974, as the case may be, were Directors or Senior Officers of N & C:

Name of Individual or Identity of Group	Capacities in which Remuneration was Received	1973	1974
Edmund C. Bovey	President of N & C in 1973, Chairman of the Board of N & C in 1974, and a Director of N & C and subsidiaries	\$134,800	\$ 138,600
Edward G. Battle	President of N & C and a Director of N & C and subsidiaries in 1974	(1)	100,400
C. Spencer Clark	Chairman of the Board of N & C in 1973, Vice-Chairman of the Board of N & C in 1974, and a Director of N & C and subsidiaries	87,100	90,200
Edward A. Galvin	Chairman of the Board, President and a Director of Cigol, and a Director of N & C and other subsidiaries	106,900	131,300
Robert B. Craddock	Director of N & C and of subsidiaries, and consultant to N & C	51,600 ⁽²⁾	11,700
Jean J. Leroux	Executive Vice-President, Operations of N & C and a Director of subsidiaries	60,300	65,400
Other Directors and Senior Officers in the aggregate		458,300	473,400
Total to all Directors and Senior Officers as a group (26 persons)		<u>\$899,000⁽³⁾</u>	<u>\$1,011,000⁽³⁾</u>

(1) See "Management of Cigol—Remuneration of and Transactions with Management" as to remuneration received by Mr. Battle from Cigol in 1973.

(2) Not included in the table is a lump-sum retirement allowance of \$76,000 paid in recognition of Mr. Craddock's past services to N & C and its subsidiaries.

- (3) \$590,000 in 1973 and \$658,800 in 1974 was paid or accrued by N & C and \$309,000 in 1973 and \$343,400 in 1974 was paid or accrued by its subsidiaries, including Cigol, Coleman, Gaz Métropolitain and Greater Winnipeg. The salary portion of the remuneration shown for each of the Officers and Directors named in the table was paid by N & C except in the case of Mr. Galvin whose salary was paid by Cigol.

Certain senior Officers of N & C have agreed that, upon attaining the age of 65 or in certain circumstances upon earlier termination of active employment, they will act as consultants for a period of five years. In consideration therefor such Officers will be entitled to receive consulting fees paid on a monthly basis. On the basis of the rates of remuneration in effect at December 31, 1974, such monthly payments would be at the rate of \$5,000 for Mr. Bovey, \$3,125 for Mr. Clark, and \$2,188 for Mr. Leroux. See "Management of Cigol—Remuneration of and Transactions with Management" with respect to a similar arrangement between Mr. Galvin and Cigol.

The following table sets forth, with respect to the individuals named and the individuals who during 1973 or 1974 were Directors or Senior Officers of N & C, the options to purchase Common Shares of N & C that were granted pursuant to N & C's Incentive Stock Option Plan during the period from January 1, 1969 to January 6, 1975, the options that were exercised during such period, the options that were outstanding at the end of such period, and the number of Common Shares sold during such period by those of such individuals exercising options:

Options Granted	Number of Shares	Exercise Price Per Share	Range of Market Price During Preceding 30 Days	Expiry Date	Aggregate Exercise Price	Aggregate Market Price on Exercise Date
<u>January 9, 1969</u>						
Mr. Galvin	25,000*	\$16.50	\$16.50-\$17.50	January 8, 1974		
<u>April 13, 1970</u>						
All Directors and Senior Officers as a group	15,000	12.38	11.88- 13.00	April 12, 1975		
<u>April 27, 1971</u>						
Mr. Leroux	8,000	15.88	15.63- 17.00	April 26, 1976		
All Directors and Senior Officers as a group	30,000					
<u>December 7, 1972</u>						
Mr. Leroux	7,000	11.88	11.25- 12.00	December 6, 1977		
All Directors and Senior Officers as a group	27,000					
<u>April 19, 1973</u>						
All Directors and Senior Officers as a group	19,000	10.88	10.63- 11.63	April 18, 1978		
<u>July 5, 1973</u>						
Mr. Bovey	60,000	9.75	9.50- 10.38	July 4 1978		
Mr. Clark	35,000					
Mr. Leroux	15,000					
All Directors and Senior Officers as a group	154,000					
<u>February 21, 1974</u>						
Mr. Battle	100,000	12.38	11.00- 12.88	February 20, 1979		
Mr. Leroux	10,000					
All Directors and Senior Officers as a group	120,000					

*This option was cancelled on September 13, 1972.

	Number of Shares	Exercise Price Per Share	Range of Market Price During Pre- ceding 30 Days	Expiry Date	Aggregate Exercise Price	Aggregate Market Price on Exercise Date
Options Exercised						
<u>January 1, 1969 to December 31, 1972</u>						
Mr. Bovey	35,000				\$416,000	\$670,000
Mr. Clark	49,700				\$590,000	\$887,000
Mr. Craddock	20,000				\$131,000	\$360,000
Mr. Leroux	10,000				\$126,000	\$187,000
All Directors and Senior Officers as a group	138,100				\$1,649,000	\$2,571,000
<u>January 1, 1973 to January 6, 1975</u>						
All Directors and Senior Officers as a group	12,000	9.75	12.00- 13.13		\$117,000	\$155,000
Options Unexercised on January 6, 1975						
Mr. Bovey	60,000	9.75*				
Mr. Battle	100,000	12.38*				
Mr. Clark	35,000	9.75*				
Mr. Leroux	40,000	12.00*				
All Directors and Senior Officers as a group	243,000	11.10*				

*Average exercise price per share.

Sales since January 1, 1969

Mr. Clark	17,080
Mr. Craddock	7,262
All Directors and Senior Officers as a group	34,712

During the period from January 1, 1969 to January 6, 1975, options to purchase Common Shares were granted with respect to 189,000 shares to employees of N & C other than the above-mentioned Directors and Senior Officers at an average exercise price per share of \$13.11.

All outstanding options under the Incentive Stock Option Plan of N & C were granted at current market prices and are "market growth options", which means that, upon the exercise of an option, the holder receives, without payment, such number of shares as equals the quotient obtained by dividing (a) the amount obtained by multiplying the number of shares with respect to which the option is exercised by the difference between the market price of a Common Share of N & C on the date the option is exercised and the exercise price, by (b) the market price of a Common Share of N & C on the date the option is exercised. See Note 11(c) to the consolidated financial statements of N & C appearing elsewhere in this Information Circular and Proxy Statement.

See "Management of Cigol—Remuneration of and Transactions with Management" for information as to options held by Messrs. Galvin and Battle to purchase Common Shares of Cigol.

The following table sets forth with respect to the individuals named the annual pension benefits being paid or, in the case of individuals who have not retired, estimated to be payable in the event of their retirement upon reaching age 65 on the assumption that their remuneration will continue until such age at the rates in effect at December 31, 1974:

<u>Name of Individual</u>	<u>Years of Service of Individual at Age 65</u>	<u>Annual Pension Benefits</u>
Mr. Bovey	23	\$26,289
Mr. Battle	32	\$32,492
Mr. Clark	20	\$22,860
Mr. Galvin	22	\$25,622
Mr. Craddock	14*	\$12,506
Mr. Leroux	21	\$19,343

*Mr. Craddock has attained age 65 and has retired as an employee.

The cost to N & C and its subsidiaries during 1973 of all pension benefits proposed to be paid or being paid to persons who during 1973 were Directors or Senior Officers of N & C was \$29,500. The cost to N & C and its subsidiaries during 1974 of all pension benefits proposed to be paid or being paid to persons who during 1974 were Directors or Senior Officers of N & C was \$37,700.

The firm of Laing, Weldon, Courtois, Clarkson, Parsons & Tétrault, of which E. Jacques Courtois, Q.C. (a Director of N & C) is a partner, received \$225,725 and \$223,790 as fees for legal services rendered to N & C and its subsidiaries during 1973 and during the first nine months of 1974, respectively. The firm of Osler, Hoskin & Harcourt, of which F. A. M. Huycke, Q.C. (a Director of N & C) is a partner, received \$55,700 and \$155,209 as fees for legal services rendered to N & C and its subsidiaries during 1973 and during the first nine months of 1974, respectively.

BUSINESS AND PROPERTIES OF CIGOL

General

Cigol is a major independent Canadian oil and gas company and is engaged in the business of producing crude oil and natural gas in Canada, exploring for crude oil and natural gas in Canada and elsewhere, transporting oil in Western Canada, processing natural gas in Alberta, distributing natural gas in Alberta and British Columbia, and distributing liquefied petroleum gas in Western Canada and the States of Washington and Oregon.

Cigol conducts its operations directly, through wholly-owned subsidiaries and through other subsidiaries, including Prairie Oil Royalties Company, Ltd. ("Prairie Oil"), a 74%-owned subsidiary acquired in 1966 and 1967, and Trans-Prairie Pipelines, Ltd. ("Trans-Prairie"), a 99%-owned subsidiary of which approximately 95% was acquired in 1969 and the balance was subsequently acquired. Prairie Oil's principal business is exploring for oil and gas in Canada and producing oil and gas in Saskatchewan and Alberta. Trans-Prairie owns and operates crude oil transmission systems in Alberta, British Columbia, Manitoba and Saskatchewan and natural gas distribution systems in Alberta and British Columbia. The balance of the outstanding shares of Prairie Oil and Trans-Prairie is publicly held, and the shares of Prairie Oil are traded on the Toronto and American Stock Exchanges and the shares of Trans-Prairie are traded on The Toronto Stock Exchange. Unless the context otherwise indicates, the term "Cigol" includes Canadian Industrial Gas & Oil Ltd. and its subsidiaries.

As described under "Acquisition of Great Plains", Cigol has agreed, subject to the satisfaction of certain conditions, to acquire for cash all of the shares of Great Plains. The description of Cigol under "Business and Properties of Cigol" does not include information with respect to Great Plains. See "Business and Properties of Great Plains".

Lines of Business

The following table sets forth for the periods indicated the sources of the gross revenues and of the income before income taxes, extraordinary items and minority interests of Cigol (for this purpose including the operating results of subsidiaries for periods prior to their acquisition by Cigol):

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of dollars)						
<i>Gross Revenues</i>							
Crude oil, natural gas liquids and natural gas production and sales (1).....	\$15,120	\$13,806	\$15,783	\$17,282	\$22,985	\$16,523	\$25,848
Oil gathering and transmission.....	4,826	4,984	5,012	4,829	5,092	3,859	4,003
Industrial gas system.....	6,874	6,871	7,256	8,047	8,835	6,494	6,946
Utility gas systems.....	2,087	2,623	3,230	3,847	4,488	3,096	3,267
Liquefied petroleum gas sales.....	7,670	7,936	13,413	16,279	20,769	12,267	20,438
TOTAL.....	36,577	36,220	44,694	50,284	62,169	42,239	60,502
Less interdivision eliminations (2).....	2,403	2,404	2,608	2,852	3,205	2,268	3,266
CONSOLIDATED REVENUES.....	\$34,174	\$33,816	\$42,086	\$47,432	\$58,964	\$39,971	\$57,236

Income Before Income Taxes, Extraordinary Items and Minority Interests	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of dollars)						
Crude oil, natural gas liquids and natural gas production and sales (1)	\$ 3,685	\$ 3,629	\$ 4,618	\$ 4,590	\$ 7,750	\$ 6,009	\$11,416
Oil gathering and transmission	2,712	3,130	3,172	3,102	3,340	2,646	2,681
Industrial gas system	1,721	1,967	2,151	2,461	2,966	1,914	2,258
Utility gas system	440	640	954	991	829	526	300
Liquefied petroleum gas sales	445	144	(350)	333	1,183	145	1,440
TOTAL(3)	\$ 9,003	\$ 9,510	\$10,545	\$11,477	\$16,068	\$11,240	\$18,095

(1) 1969 includes approximately \$2,440,000 sublease revenue which generated approximately \$48,000 in income before income taxes, extraordinary items and minority interests. See Note (c) to the consolidated statement of income of Cigol appearing elsewhere in this Information Circular and Proxy Statement.

(2) Interdivision revenue eliminations are as follows:

Interdivision revenue eliminations are as follows:						Nine Months Ended September 30,	
	Year Ended December 31,					1973 1974	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of dollars)						
Crude oil, natural gas liquids and natural gas production and sales:							
To industrial gas system.....	\$ 1,583	\$ 1,709	\$ 1,683	\$ 1,707	\$ 1,905	\$ 1,362	\$ 1,456
To liquefied petroleum gas division.....	77	94	109	119	119	73	298
Industrial gas system to liquefied petroleum gas division	140	170	181	159	184	127	167
Intercompany interest.....	603	431	635	867	997	706	1,345
TOTAL.....	\$ 2,403	\$ 2,404	\$ 2,608	\$ 2,852	\$ 3,205	\$ 2,268	\$ 3,266

(3) Amounts attributable to minority interests in majority-owned subsidiaries have ranged between .3% and 1.7% during the periods shown.

There is a sharp increase in sales of both natural gas and liquefied petroleum gas products in the winter months. Other aspects of Cigol's operations involve little or no seasonal variations.

Production

The following table sets forth the net production, after deducting all royalties of third parties, of crude oil and natural gas liquids and of natural gas accruing to the working and royalty interests of Cigol for the periods indicated (including production of subsidiaries for periods prior to their acquisition by Cigol and including 100% for majority-owned subsidiaries):

	Year Ended December 31,					Nine Months Ended September 30,	
	1969(1)	1970	1971	1972	1973	1973	1974
	(in thousands of barrels)						
<i>Crude oil and natural gas liquids</i>							
Alberta (1).....	2,599	2,073	2,252	2,807	3,480	2,549	2,562
British Columbia.....	591	529	667	468	367	284	223
Saskatchewan.....	785	788	783	780	769	578	296
Other.....	8	7	7	6	6	4	4
	3,983	3,397	3,709	4,061	4,622	3,415	3,085
Synthetic crude oil—Alberta.....	151	107	162	193	443	273	467
TOTAL.....	4,134	3,504	3,871	4,254	5,065	3,688	3,552
<i>Natural gas</i>							
	(in thousands of mcf)						
Alberta (1).....	28,402	30,513	29,913	32,569	33,297	24,488	26,751
British Columbia.....	4,193	3,786	3,705	3,198	3,241	2,426	2,455
Saskatchewan.....	95	87	113	92	95	68	80
Other.....	324	355	357	308	251	195	50
TOTAL.....	33,014	34,741	34,088	36,167	36,884	27,177	29,336

(1) 1969 figures include sublease volumes of 813,000 barrels and 797,000 mcf.

Although gross production of crude oil and natural gas liquids increased somewhat during the first nine months of 1974 compared with 1973, net production was lower due primarily to increased provincial royalties.

A significant portion of Cigol's production of crude oil is derived from the Pembina, Countess-Lathom, Joarcam, Swan Hills and Simonette fields in Alberta, the Weyburn field in Saskatchewan and the Peejay field in British Columbia. Since present ability to produce in Alberta is greater than existing available markets, most crude oil in Alberta is pro-rated to market demand, resulting in some curtailment of production.

A significant portion of Cigol's natural gas production is derived from the Westlock, Fort Saskatchewan, Bindloss, Ghost Pine and Nevis fields in Alberta and the Jedney-Bubbles area of British Columbia.

Marketing

All of the crude oil produced from wells in Canada in which Cigol has interests is marketed at current field prices under short-term contracts (normally cancellable on 30 days' notice, except as may be amended by governmental authorities from time to time) which are standard for the Canadian oil industry. The following table shows the weighted average price per barrel received from the production and sale of crude oil and natural gas liquids and from royalties on crude oil (including synthetic crude oil) and natural gas liquids (expressed in terms of weighted average price per barrel), during the periods indicated:

Year Ended December 31,					Nine Months Ended September 30,	
1969	1970	1971	1972	1973	1973	1974
\$2.43	\$2.40	\$2.62	\$2.62	\$3.16	\$3.09	\$5.22

The maximum wellhead price of crude oil to producers such as Cigol in Canada has been fixed at approximately \$6.50 per barrel under an informal agreement between the Provinces of Canada and the Federal Government of Canada. This was announced on March 27, 1974 to be effective for the 15-month period ending July 1, 1975 after which the matter is expected to be reviewed. Crude oil exported to the United States is currently subject to an export tax imposed by the Federal Government. The export tax, which may be changed unilaterally by the Federal Government, has varied from 40¢ to \$5.20 per barrel and on December 1, 1974 was \$4.10 on heavy crude oil, \$4.70 on medium crude oil, and \$5.20 on light crude oil and condensate. The combination of the informal price fixing and the export tax results in Cigol's not receiving the current international price for crude oil produced in Canada. See "Recent Government Policy" for recent royalty, marketing and tax changes.

During the first nine months of 1974, approximately 35% of Cigol's net natural gas production was sold through Cigol's gathering and transmission system (industrial gas system) near Edmonton, Alberta to industrial and other customers under gas sales contracts expiring between 1974 and 1983 (see "Natural Gas Gathering, Transmission and Distribution"), and the remainder was sold to three pipeline companies for resale in Canadian or United States markets. It is impossible for Cigol to determine the relative amounts of its gas sold to Canadian and United States markets. The contracts under which gas is sold to the three pipeline companies have terms expiring between 1984 and 1997 and provide for fixed escalation of sales prices and normally for the redetermination of base prices, both at periodic intervals generally every one to two years. Redetermination of reserves, which affect the purchasers' minimum "take or pay" obligations, normally occurs at two-year intervals. The weighted average prices per mcf received for gas sold to both classes of customers during the periods indicated below were as follows:

Year Ended December 31,					Nine Months Ended September 30,	
1969	1970	1971	1972	1973	1973	1974
12.4¢	12.8¢	13.0¢	13.3¢	14.3¢	14.1¢	17.9¢

The price per mcf to producers such as Cigol for gas sold to the three pipeline companies increased significantly in November, 1974. The weighted average price per mcf for gas sold to both classes of customers during November, 1974 was \$.31. See "Recent Government Policy" for the effect of recent royalty, marketing and tax changes.

The exportation of natural gas from Canada to the United States is subject to the prior approval of the National Energy Board ("NEB") and the United States Federal Power Commission. Canada's total marketable natural gas production in 1973 was approximately 2,600,000 mmcf, of which 1,029,000 mmcf was exported to the United States. See "Business and Properties of N & C—Natural Gas Supply" as to Canadian gas export policy.

In September 1974, the Federal Government announced that each importer in the United States of natural gas from Canada would be afforded the election to continue imports under existing contracts and prices for two years—at which time its export licence would end—or to revise the present licence to provide for sale prices of \$1.00 per mcf. The announcement stated that the increase would be passed on to the producers rather than retained by the pipeline companies, but the method of allocation and effect, after provincial royalty, marketing arrangements and tax, has yet to be determined. As stated above, Cigol is unable to determine the share of its gas sales that is exported to the United States as Cigol's gas enters a stream that supplies both domestic and export users.

Recent Government Policy

Most of Cigol's oil and gas production is from lands leased from the Provinces in Canada and its net return is affected by royalty and tax rates and marketing arrangements from time to time that are determined by government. During 1974, changes in royalty rates, taxes and/or marketing arrangements were instituted or announced by the Provinces of Alberta, British Columbia and Saskatchewan and by the Federal Government. These changes to some extent have precipitated or reflect the current situation whereby the Federal and Provincial Governments are in disagreement regarding pricing and taxation of natural resources and sharing of revenues from natural resources and have resulted in Cigol's not enjoying the full benefit of price increases.

In the Province of Alberta crude oil is now marketed through a Crown Petroleum Marketing Commission with the producer receiving a frozen wellhead price averaging approximately \$6.50 per barrel. Alberta Crown royalties vary with the volume of production from the producing well and prior to April 1, 1974 ranged from 5% to 25%. As of April 1, 1974 the rates were revised to reflect price increases above the previous price ranges and were increased so as to range at current prices from 10.32% to 44.22% for "old" oil and from 7.3% to 30.55% for "new" oil. The royalty share on incremental prices above \$6.50 for "old" oil was 65%. In a December, 1974 announcement, the Province of Alberta stated that it proposed to decrease the 65% royalty rate on price increments over \$6.50 per barrel, but added that the extent of such reduction would depend upon the timing of a general crude oil price increase, the amount of such an increase and the anticipated levels of production. The announcement also stated that, effective January 1, 1975, rates applic-

able at current prices would be adjusted so that the effective average royalty rate on "old" oil would be reduced from approximately 40% to approximately 36% and on "new" oil from approximately 28% to approximately 27%. In the case of gas, the former rate was 16 $\frac{2}{3}$ % but, since January 1, 1974, the rate is on a sliding scale ranging from 22% at a price of 26¢/mcf or lower to 48.68% at a price of \$1.20/mcf for "old" gas production. In the case of sales above 72¢/mcf the incremental royalty share on the excess was 65%, but the December, 1974 announcement stated this was to be reduced to 50% effective January 1, 1975, resulting in a reduction from 48.68% at \$1.20/mcf to 42.68%. In the case of "new" gas the rate ranges from 22% at a price of 26¢/mcf, or lower, to 31.62% at a price of \$1.20/mcf. "New" oil is defined as that oil discovered by wells drilled subsequent to January 1, 1974, or recovered from enhanced recovery schemes instituted after that date. "New" gas is defined as that gas discovered by wells drilled subsequent to January 1, 1974. The Government has announced that gas wells that were not on production prior to January 1, 1974 would be considered to have a "new" gas status; however, regulations effecting this are not yet published. The December, 1974 announcement also proposed that effective January 1, 1975 the amount of credits available as an offset to royalties payable to the Province of Alberta arising from new exploratory drilling would be increased from approximately 40% to approximately 50% of drilling costs for wells drilled in the foothills and northern areas of Alberta and from approximately 30% to approximately 37.5% in the balance of the Province. Earlier in 1974 credits against royalty for certain seismic exploration activities in Alberta were announced; however, the details have yet to be published.

In the Province of Saskatchewan, legislation became effective January 1, 1974, the general effect of which is that the producer and the royalty holder pay mineral income tax or a royalty surcharge on their share of crude production equivalent to 100% of the increase in per barrel price received over wellhead prices prevailing prior to August 1, 1973. This base price averages approximately \$3.00 per barrel. The wellhead price received for Cigol's sales of crude oil in September, 1974, averaged \$6.29 per barrel. Provision exists for credits against such tax or royalty surcharge for up to 60% of new exploration costs in certain instances and a recent announcement indicated further programs to encourage more exploration and development in Saskatchewan; however, Cigol does not currently plan any material exploration activities in Saskatchewan. As mentioned below, this mineral income tax or royalty surcharge is not a deductible expense in calculating Federal income tax. Cigol is currently appealing a decision of a Saskatchewan court upholding the constitutional validity of the Saskatchewan mineral income tax and royalty surcharge legislation. In addition, the working interest owner pays a lessor's royalty to the Province on the base figure ranging to a maximum of approximately 25%. In a December, 1974 announcement, the Province of Saskatchewan indicated a 12 to 24 cents per barrel reduction on the mineral income tax and royalty surcharge on medium and heavy crude oil, a credit to the royalty surcharge or mineral income tax ranging from \$48.00 to \$144.00 per well per month in respect of increased production costs, a reduction in mineral income tax and royalty surcharge of ten cents per barrel on wells producing at 20 barrels per day ranging up to complete relief on wells producing at less than five barrels per day.

In the Province of British Columbia, the previous royalties on crude oil ranged from 10% to 40% depending on the level of production from the producing well and were revised effective April 1, 1974, so as to range up to 40% on wells that produce up to 1,000 barrels monthly and from 40% to 60% for those producing above that. Discovery wells in new pools are exempt from royalty for three years. Gas royalties which previously averaged 15% have, in all but a few isolated cases, been eliminated as the gas produced by Cigol in British Columbia must now be sold to the British Columbia Petroleum Corporation, a Crown corporation, at a price net of Crown royalty determined by the Crown corporation, currently approximately 19¢/mcf.

In late 1974, the Federal Government introduced a bill in Parliament which, after its passage, would give the Federal Government the power to regulate the price of crude oil and natural gas that moves outside the province where produced and to continue to levy a tax on crude oil exported from Canada. See "Marketing".

A substantial portion of Canada's crude oil production is exported to the United States; however, Canadian export policy significantly restricts the supplying of Canadian production to United States markets. The export tax and restrictions result in a market situation whereby Cigol is currently forced to produce below existing capacity. The Federal Government in November, 1974, announced that crude oil exports to the United States (approximately 900,000 barrels per day during the first 10 months of 1974) would be reduced to 800,000 barrels per day effective January 1, 1975, and, in all likelihood, to 650,000 barrels per day effective mid-1975. During the first 10 months of 1974 total Canadian demand for crude oil averaged approximately 1,765,000 barrels per day. Cigol's management believes that domestic demand will be unable to

utilize the amount of the initial daily export decrease unless a pipeline from Sarnia to Montreal is completed. The Federal Government announced that the proposed pipeline is expected to have a daily through-put of 250,000 barrels and a completion date in late 1976; however, the timing of commencement of construction and completion is unknown. If the announced export decreases are implemented, this, combined with anticipated growth in demand from existing domestic markets, is expected to result in industry-wide net curtailment of production from 1974 levels in Alberta and possibly in Saskatchewan. The November announcement also stated that crude oil exports to the United States would be phased out by 1982.

On November 18, 1974, the Federal Government introduced a Budget proposing that oil and gas royalties, mineral taxes, and similar levies payable subsequent to May 6, 1974 to a Canadian Provincial or Federal Government or their agencies ("the Crown") will be included in income and are not deductible for Canadian income tax purposes. In cases where Cigol disposes of oil or gas produced by it in Canada to the Crown at prices below fair market value (whether fixed by law or contract), such higher value rather than the amount received must be taken into income for tax purposes. The effective Federal tax rates in respect of Canadian petroleum production profits are to be reduced under the Budget from approximately 38% (up to May 6) to 30% for the balance of 1974, and to 28% in 1975 and 25% thereafter. There is no change in the Federal tax rate for other sources of income but a 10% corporate surtax will be applicable on other income earned for the period from April, 1974 to May, 1975. Effective Federal tax rates for such other sources of income will be approximately 40.5% in 1974, 38.2% in 1975, and 36% thereafter. The Budget also proposes to allow depletion on Canadian production profits earned after May 6, 1974 at a rate of 25% of such profits deductible, however, only to the extent of Cigol's earned depletion base. The earned depletion base at any particular time consists of one-third of Cigol's expenses incurred after November 7, 1969 in exploring and drilling for oil or gas in Canada, less depletion allowances claimed after May 6, 1974. Prior to May 6, 1974 Cigol was entitled to claim percentage depletion of 33 $\frac{1}{3}$ % on production income and 25% on royalty income. The amount of Cigol's earned depletion base available for use by Cigol and Norcen in 1974 and subsequent years is estimated to be approximately \$22,000,000. The Budget proposes in general to continue the deductibility from income in full of Canadian exploration and exploratory drilling costs but to limit the rate at which Canadian development drilling and land acquisition costs incurred after May 6, 1974 may be written off in any year to the extent of 30% of the unclaimed balance thereof. Both classes of expenses may be carried forward indefinitely until fully deducted. Cigol anticipates that in the 1974 tax year it will deduct practically all of its available exploration and exploratory drilling costs and will have a balance of approximately \$2,300,000 of development drilling and land acquisition costs available for deduction by Cigol and Norcen in future years.

Each of the Provinces of Saskatchewan, Alberta and British Columbia also imposes an income tax being generally a percentage of taxable income for federal income tax purposes. British Columbia and Saskatchewan apply a 12% rate whereas Alberta applies an 11% rate. However, the Province of Alberta in the December, 1974 announcement stated it proposes to refund 11% of amounts by which taxable income was increased by virtue of inclusion of royalties and other payments made to the Province of Alberta. The same announcement stated that each corporation paying royalties to Alberta is to receive an annual credit against such royalties of an amount equivalent to Federal corporate tax on royalties paid to Alberta up to a maximum of \$1,000,000. Cigol expects to receive a credit of approximately \$650,000 in 1974 and \$1,000,000 annually thereafter. See note (d) to the consolidated statement of income of Cigol.

Likewise, later in December, 1974, the Province of Saskatchewan announced that it proposes to rebate 12% of the amounts by which taxable income was increased by virtue of inclusion of royalties and other payments made to the Province of Saskatchewan.

In January, 1975 the Premier of the Province of British Columbia in an "Official Statement re Natural Gas" stated that the Province had negotiated a tax rebate system with the Federal Government regarding natural gas which, in essence, restores the position of the natural gas producer to that which prevailed prior to the introduction of the November 18, 1974 Budget under which, as mentioned above, the producer selling natural gas to the Crown was required to include in income the fair market value rather than the amount received. While details of the rebate system have yet to be announced, management expects its effect will be that income tax payable with respect to natural gas production in British Columbia will be based on actual sale proceeds received.

As mentioned under "Marketing" the maximum wellhead price of crude oil is currently fixed at approximately \$6.50 per barrel; however, the December, 1974 announcement of the Province of Alberta stated that, while sales of Alberta crude at \$6.50 would continue over the balance of the winter, the Province intended

to take action available to it under the constitution to increase the price of its depleting resources closer to fair market value.

Royalty Interests

At September 30, 1974, Cigol and Prairie Oil owned gross overriding royalty interests (under which the holder is entitled to a percentage of production without obligation to pay any capital or production expenses) in oil and gas produced from 881,398 acres and 205,065 acres, respectively, in various areas of Western Canada. For the year ended December 31, 1973 and the first nine months of 1973 and 1974, Cigol received income from its royalties of \$442,035, \$314,615 and \$478,575, respectively, and Prairie Oil received income from its royalties of \$653,633, \$470,171 and \$506,169 respectively.

Cigol owns a gross overriding royalty on bitumen produced from 4,506 acres in the Athabasca Oil Sands area of Alberta which are presently sub-leased by Cigol to Great Canadian Oil Sands Limited, a subsidiary of Sun Oil Company. Cigol is presently entitled to receive a minimum royalty of 2½¢ per barrel of bitumen processed, plus additional royalties per barrel of synthetic crude oil production (at September 30, 1974, at a rate of approximately 26¾¢ per barrel of synthetic crude oil produced) equal to 6¼% of the difference between the per barrel sale price of synthetic crude oil and a base price of \$2.75 per barrel. For the year ended December 31, 1973 and the first nine months of 1973 and 1974, Cigol received income from this royalty of \$1,732,420, \$1,151,366 and \$3,082,305, respectively. The increase in 1974 reflects increased prices and production and the expiration of the waiver by Cigol of one-half of the aggregate royalties.

Reserves

Cigol's net proven reserves as at September 1, 1974 were summarized in a report dated November 19, 1974 by McDaniel Consultants (1965) Ltd., Calgary, Alberta, as follows:

Area	Crude Oil (bbls)	Natural Gas Liquids (bbls)	Natural Gas (mmcf)
Alberta.....	20,325,781	3,512,286	373,523
British Columbia.....	2,099,417	8,085	87,678
Saskatchewan.....	3,670,057	—	2,708
Athabasca Oil Sands.....	18,816,835	—	—
Other Royalty.....	3,015,505	—	23,636
Total Net Reserves.....	47,927,595	3,520,371	487,545

McDaniel Consultants (1965) Ltd. defines proven reserves as 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.

No natural gas liquids reserves were assigned to the proven natural gas reserve unless facilities to remove these products were available or had been planned for such processing. Prairie Oil was estimated to own 4.2% of the proven crude oil reserves, 4.6% of the proven natural gas reserves, and a negligible amount of the natural gas liquids reserves. Trans-Prairie was estimated to own 5.2% of the proven crude oil reserves, 3.9% of the proven natural gas reserves, and a negligible amount of the natural gas liquids reserves.

Approximately 40% of the producing properties of Cigol are subject to first mortgage liens under the trust indentures securing outstanding bonds or have been assigned as security for demand and other bank loans.

Exploration and Development

The following table sets forth information as of September 30, 1974, with respect to the producing and exploratory oil and gas acreage in which Cigol holds or can earn interests, including 100% for majority-owned subsidiaries. The table does not include acreage in which Cigol holds royalty interests. See "Royalty Interests".

Geographic Area	Leases and Production Licences(1)		Reservations, Permits and Concessions(2)	
	Gross Acres(3)	Net Acres(3)	Gross Acres(3)	Net Acres(3)
<i>Canada</i>				
Alberta.....	2,642,761	1,132,658	928,203	669,519
British Columbia.....	298,620	74,149	389,907	209,699
Manitoba.....	77,103	23,702	—	—
Ontario.....	4,252	4,252	1,890	1,890
Saskatchewan.....	224,456	125,966	144,480	120,080
<i>Canadian Frontier (4) (5)</i>				
Arctic Islands.....	116,085	6,625	7,206,771	3,677,358
Beaufort Sea.....			411,727	330,528
Northwest Territories.....	52,976	6,842	320,462	37,627
Yukon.....			381,646	305,846
Hudson Bay.....			610,112	610,112
East Coast				
Offshore Labrador.....			1,030,978	773,234
Flemish Pass.....			1,029,200	1,029,200
Scotian Shelf.....			4,857,516	607,190
<i>Foreign</i>				
United States.....	17,454	1,001		
British Sector of North Sea.....	259,828	62,210		
Italy—offshore.....			131,966	131,966
Oman.....	3,854,599	1,204,562		
Tunisia.....			3,776,718	1,675,373
Turkey.....	123,550	24,710		
Viet Nam.....			1,127,591	281,898
Malta.....			426,322	90,593
Total (4)(5)(6).....	<u>7,671,684</u>	<u>2,666,677</u>	<u>22,775,489</u>	<u>10,552,113</u>

- (1) Includes 550,339 gross (177,188 net) acres attributable to Prairie Oil and 448,514 gross (249,729 net) acres attributable to Trans-Prairie.
- (2) Includes 3,080,934 gross (234,451 net) acres attributable to Prairie Oil and 1,687,317 gross (1,634,259 net) acres attributable to Trans-Prairie.
- (3) "Gross" acres represent the total number of acres in which Cigol has or can earn any working interests. "Net" acres represent the aggregate working interest which Cigol holds or can earn in the gross acres after deducting the working interests held by unrelated parties.
- (4) Cigol holds a 10% equity interest in Elf Oil Exploration and Production Canada Ltd. ("Elf") acquired at a cost of approximately \$23,500,000. As of September 30, 1974, Elf held leases, reservations and permits covering the following properties:

<u>Area</u>	<u>Gross Acres</u>	<u>Acres Net to Elf</u>
Arctic Islands.....	24,812,732	12,283,354
Offshore East Coast.....	4,654,333	2,918,348
Mackenzie Delta.....	5,044,199	3,734,911
British Columbia.....	1,112,984	279,529
Beaufort Sea.....	1,804,919	748,338
Alberta.....	714,220	194,475
Hudson Bay.....	16,742,525	1,322,659
Totals.....	<u>54,885,912</u>	<u>21,481,614</u>

Since 1970, when Cigol acquired its interest, Elf has participated in 15 gross (8.05 net) wells in the Arctic Islands, all of which wells have been abandoned. In 1974, Cigol reduced the carrying value of its investment in Elf by \$3,500,000 (see Note 2 to Cigol's Consolidated Financial Statements).

- (5) In addition, Cigol has a 0.67% share interest in Panarctic Oils Ltd. ("Panarctic"), which as of September 30, 1974 held permits covering an aggregate of 79,969,401 gross and 55,650,218 net acres of exploratory permits located in the Canadian Frontier. See "Canadian Frontier" below.
- (6) To maintain its percentage interest in leases, reservations, permits, concessions or licences, Cigol may be required to satisfy certain work or cash obligations. Because Cigol participates with others in many of its leases, reservations and permits, the continuation of its interests therein may depend on the continued ability and willingness of the co-owners to satisfy the remaining portion of such required work or cash obligations. Cigol's holdings may also be reduced from time to time as a result of dispositions of interests in consideration of the performance of exploratory work or as a result of the surrender or other disposition of properties.

Substantially all Cigol's leases are granted by Federal or Provincial governments. Leases grant to the lessee the right to explore for oil and natural gas and recover it from the leased property to the extent the lessor is entitled to grant the same. The lessee pays all the development and operating costs and is entitled to the production subject to a royalty which presently ranges from 5 to 59%. See "Recent Government Policy". Lease terms vary from jurisdiction to jurisdiction and with the date of the grant and are generally from 10 to 21 years. The leases generally provide for renewal for the term of the original lease if the lands are capable of commercial production. Production licences are located in foreign areas and are discussed below.

Reservations, permits and concessions are rights to explore lands and entitle the holder to obtain leases or production licences covering in most instances up to one-half of the acreage covered by a reservation, permit or concession with the balance in each case reverting to the government involved. The duration and terms of reservations, permits and concessions vary in the different jurisdictions. To retain a reservation, permit or concession the holder is generally required to undertake specified amounts of exploratory work or make cash payments. The gross and net acreage figures set forth in the above table represent total acreage before any reversions to the governments involved.

In general, any sale or transfer by Cigol of any of its oil and gas properties or interests is subject to the consent of the government which granted the interest and to the rights of first refusal of co-owners under operating agreements.

As indicated in the above table, Cigol holds oil and gas properties in and carries on exploration in many parts of the world and the following are the areas of most current exploration and development interest:

Western Canada. In 1971 Cigol purchased from a third party 131,856 gross (25,488 net) acres of leases with daily net oil production of 531 barrels in the Countess area of Southern Alberta. Since 1971 Cigol has increased its land holdings in the Countess-Lathom Blackfoot-Taber area to 529,922 gross (265,901 net) acres, has participated in approximately 109 exploratory and development wells in the area resulting in 30 gross (7.29 net) oil wells, 22 gross (6.16 net) gas wells and 58 gross (18.6 net) abandoned wells and has expanded secondary recovery operations. During September, 1974 the daily net oil production from the purchased leases was 3,406 barrels primarily as a result of such expanded secondary recovery operations and currently is below this capacity by about 30% under pro-rationing of market demand for medium gravity crude oil which has decreased primarily due to the size of the export tax levy. See "Recent Government Policy", "Production" and "Marketing".

Since 1971 Cigol has pursued an active land acquisition program in the Peace River area of North Central Alberta and currently holds 116,320 gross (80,433 net) lease acres in the Golden area, 49,600 gross (12,144 net) lease acres in the Cadotte-Seal area and 81,600 gross (62,400 net) lease acres in the Spirit River area. During the period extensive seismic programs were conducted in the area and 6 gross (2.03 net) gas wells, 9 gross (3.0 net) oil wells and 10 gross (5.17 net) abandoned wells were drilled. Further exploratory and development drilling is planned for the 1974-1975 drilling season to further define the limits of the discoveries and to search for similar but separate accumulations in the general area. During September, 1974 the daily net oil production from this area was 527 barrels.

Cigol has entered into an agreement with a consortium of two Japanese interests, with respect to the evaluation of its Oil Sands lease No. 60 in the Cold Lake area of East-Central Alberta covering 16,393 acres. The project encompasses drilling and field testing of in situ oil recovery from the Cold Lake oil sands. The Japanese companies will spend 100% of the first \$1,500,000 and may elect to spend 75% of the next \$15,000,000 and will thereby earn 50% of Cigol's 100% interest. The first 16 wells of a multi-well evaluation drilling program have been completed and it is estimated that prior to March 31, 1975 a further four evaluation wells will be drilled. Engineering studies and design of pilot surface facilities will be finalized, thereby completing the first \$1,500,000 expenditure. Construction of pilot facilities and drilling of pilot wells are planned for 1975 with pilot operations to begin in 1976. A full-scale project is planned if the results of the pilot operation, product prices and feasibility studies justify the same.

Trans-Prairie holds 48,640 acres of Crown Reservation in the Athabasca Oil Sands area of Alberta, drilled three evaluation wells in each of 1973 and 1974 and plans further evaluation drilling in the 1974-1975 winter drilling season.

In situ recovery methods from the Oil Sands have not yet been developed on a commercial basis and leases covering the Oil Sands contain provisions whereby a royalty payable to the Crown may be unilaterally fixed by subsequent regulations.

Canadian Frontier. Cigol earned a 20% interest in a total of 133,080 acres, held by Imperial Oil Limited under exploratory permits from the Federal Government, by drilling six wells on lands in the Mackenzie Delta at a cost of approximately \$7,000,000. All of the wells were abandoned but the fifth well, Imp Cigol Russell H-23, encountered gas shows and Cigol has commenced drilling a seventh well to earn a 25% interest on a 22,000-acre block adjacent to the Russell lands and has the option to earn a 30% interest in two other 22,000-acre blocks by drilling a well on each block.

During 1974 Cigol completed a five-well program at a cost to it of approximately \$1,700,000 to earn a 12½% interest in a total of 4,857,516 exploration permit acres offshore on the Nova Scotian Continental Shelf. Each of the wells was abandoned.

In the Arctic Islands, Cigol holds interests in exploratory permits directly and through Prairie Oil, Panarctic and Elf. Preliminary seismic programs have been conducted on Cigol's holdings onshore Banks Island (1,308,000 gross and net acres) and in the Ellef Ringnes Island area (67,872 gross and 16,968 net acres). Preliminary data suggest the existence of extensive faulting and structural variation on Banks Island and the existence of structures primarily offshore on the Ellef Ringnes acreage. The preliminary data will be evaluated along with the general activity by other companies in the Arctic area before deciding on the extent and timing of further exploration.

Through Prairie Oil, Cigol holds working interests varying from .4725% to 6.175% in 2,696,879 gross acres of exploratory permits of which 1,526,214 are farmed out to Panarctic Oils Ltd. reserving a 3.15% interest to Prairie Oil. As part of the earning program, Panarctic drilled gas discovery wells on Prairie Oil's acreage on the Sabine Peninsula on Melville Island and on King Christian Island. Panarctic has drilled five wells capable of gas production on the Drake Point structure on Sabine Peninsula and on the west side of Sabine Peninsula at Hecla has drilled four wells of which two onshore wells are capable of production and one offshore well encountered gas. On King Christian Island, Panarctic drilled two wells which are capable of gas production. Panarctic plans further drilling in the area and Prairie Oil has the right to participate at 3.15% in any drilling done by Panarctic on Prairie Oil lands.

All lands in the Canadian Frontier are initially held under permits granted by the Federal Government of Canada at various times and involve an initial period of three to six years with a work deposit varying

from 20¢ per acre on the East coast to 40¢ per acre in the Arctic. They are renewable for six additional one-year periods upon work deposits at a rate ranging from 15¢ per acre in the first year to 50¢ per acre in the sixth year. Work deposits are refundable to the permit holder to the extent of allowable exploration expenditures in the permit areas. While a permit is in force, the holder has the option of acquiring 21-year leases on up to 50% of the permit acreage at annual rentals of \$1 per acre after the first year and royalties at 5% increasing to 10% after the first 36 months of production or five years after commercial production commences, whichever is earlier. If the area is capable of production, the permit must be converted to leases, which may be renewed for successive periods of 21 years as long as there is production. The Federal Government has currently under review amendments to its existing regulations governing operations, permits and leases in a number of the Canadian Frontier areas.

There is currently neither significant production from any part of the Canadian Frontier nor transport systems to deliver oil or gas. Transportation and production from such areas present technical and ecological problems and also questions of economic feasibility at least until further reserves are discovered. In addition, ice conditions present many drilling and production problems both economic and technical.

British Sector of North Sea. Cigol drilled a dry hole in 1974 on Block 210/19 offshore the Shetland Islands which Block covers 48,928 gross acres (15% owned by Cigol) at a cost to Cigol of approximately \$688,000. The well encountered middle Jurassic sandstone of greater than average thickness for the area, but no hydrocarbon indications. The group members are currently reviewing well and seismic data to determine whether an additional well or wells should be drilled on the lands which are located in water depths ranging from 540 feet to 600 feet.

Cigol has a 15% interest in Block 38/2 containing 57,450 gross acres located approximately 180 miles south-east of Aberdeen, Scotland, in water depths ranging from 250 feet to 285 feet. Twenty-five wells have been drilled by others on various blocks within 40 miles of the lands of which 2 were oil discoveries, 5 were drilled to delineate the oil discoveries and 18 were abandoned as dry holes; the oil discoveries designated as the Auk and Argyll oil fields are expected to produce approximately 40,000 barrels per day each. Blocks 210/19 and 38/2 are included in one production licence and, under the licence, the group must drill two wells and, unless the British authorities are satisfied that a third well is not justified in the light of available data, must drill a third well on the licence. The group's plans for the drilling of a well on Block 38/2 have yet to be determined.

Cigol has a 20% interest in the Northern portion of Block 47/14 covering 36,398 gross acres located approximately 32 miles east of Grimsby, England, in water depths ranging from 70 feet to 190 feet. A 9,065-foot gas discovery well was drilled in 1972 and was followed up by a second successful gas well in 1973. Two additional followup wells will be required to determine the commercial viability of the discovery. Drilling of one of these wells is expected to commence in mid-January, 1975. A 20-mile pipeline to the nearest point on the English coastline may be required if the field is developed.

In June, 1971 a test well was completed on Block 30/2 covering 55,869 gross acres in which Cigol has a 15% interest and during drill stem tests gas and condensate flowed from approximately 10,000 feet. The lands are approximately 155 miles east of Aberdeen and reserves to date do not appear to justify the building of a gas pipeline. The group is presently considering the feasibility of producing gas, removing condensate and returning residue gas to the formation.

The U.K. Government is currently reviewing its policy as to regulation of offshore operations and the extent of increased government participation therein.

As at September 30, 1974, Cigol's total expenditure in the British sector of the North Sea area aggregated \$4,422,530 and all of the obligations under the respective production licences had been fulfilled with the exception of those involving the licence containing Blocks 38/2 and 210/19 discussed above. The production licences generally have initial terms of approximately six years, renewable for forty additional years as to not more than 50 % of the acreage involved and provide for royalties of 12½% and annual rentals ranging from \$0.45 per acre to \$3.20 per acre in respect of Blocks 210/19, 38/2 and 30/2 and ranging from \$0.36-\$2.64 per acre in respect of Block 47/14 which is in a renewal period.

Tunisia. Cigol has an interest of approximately 38% in two exploration permits in Tunisia covering 2,060,856 gross acres. One permit is in the south-western desert area near Bir Tourkia and two wells were

drilled on the lands by others and abandoned before the permit was granted to Cigol. Seismic surveys by the group costing \$2,250,000 have been carried out and farmouts to others are being pursued. The other permit is offshore in the Gulf of Tunis and a well was drilled in 1973 by the group at a cost of approximately \$1,700,000 and abandoned. Additional seismic surveys are currently being conducted on the acreage to determine whether additional drilling is justified. The concessions expire in 1975-76 unless renewed for three possible successive 2½ year periods with area reductions to 80%, 64% and 50% of the original acreage. Renewals require exploration commitments of \$1,865,763 and \$1,403,822 respectively for each renewal period. Production concessions covering up to 247,000 acres may be obtained after discovery and provide for royalties of 12½% and 17½% respectively and up to 20% of production may be purchased by the Government at discounts from posted price. A third permit in the Gulf of Gabes, similar in terms to the other two, covers 1,715,862 gross acres and Cigol has approximately a 52% interest subject to being reduced to 26% upon a third party spending \$3,000,000 (U.S.) including drilling an exploratory well which is expected to be drilled prior to the expiry of the initial term in August, 1976. Renewals require exploration commitments of approximately \$2,891,172 for each 2½ year renewal period. Seismic operations have recently been carried out at no cost to Cigol. The transfer of the interest to the third party is subject to prior governmental approval failing which the group refunds to the third party expenditures incurred prior to governmental refusal.

Oman. Cigol holds a 31.25% interest in a 30-year production licence covering 3,854,599 gross acres close to the coast of Oman in a small new unexplored offshore sedimentary basin. The sediments in the basin are expected to be similar to those in a large onshore basin where oil production is now in excess of 300,000 barrels per day and several new fields have been found but are still not on production. The producing area is about 170 miles from Cigol's licence and the new fields are approximately 100 miles from Cigol's licence. The group has conducted seismic surveys at a total group cost of approximately \$1,100,000 and plans the initial exploratory well for 1975. The licence may be surrendered after the first or second well is drilled. If the licence is maintained for six years a minimum of two wells and other expenditures of at least \$5,000,000 (U.S.) are required. Subject to commercial production being obtained within six years, the licence provides for royalties of 12½-15%, varying production bonuses which could total \$12,000,000 (U.S.) at 400,000 barrels per day and acreage reductions ranging from 25% at the end of the fifth year to 68.36% by the twentieth year. The Sultan has retained a 20% working interest and can acquire, after average production per day reaches levels above 100,000 barrels, up to an additional 31% interest in stages with the last 6% interest being available after daily average production reaches 350,000 barrels. Such acquisition is at the group's then depreciated costs. The Sultan's share of expenditures is recoverable by the group out of the Sultan's share of production.

Viet Nam. Cigol has a 25% interest in an offshore concession covering 1,127,591 gross acres which expires in 1979 unless renewed, in respect of a maximum of 50% of the original area, for a further five years; such renewal requires a \$10,000,000 (U.S.) additional work obligation for the group. The concession required a group signature bonus of \$8,000,000 (U.S.) and work obligations of \$12,000,000 (U.S.). In the event of commercial discovery, a maximum of ten 30-year exploitation concessions covering not more than 123,550 acres each can be obtained, which provide for royalties of 12½%, call for a discovery bonus of \$1,000,000 (U.S.) and varying production bonuses which aggregate \$17,000,000 (U.S.) when average daily production for 60 days reaches 200,000 barrels and cumulative production of 75 million barrels has been achieved. The Government has the right to participate in the concession to the percentage from time to time comparable to that obtained by host governments in the Persian Gulf or South-East Asia areas upon paying a proportionate share of the group costs to such date. Annual rentals range from \$6 (U.S.) per square kilometer during the initial three years to \$3,000 (U.S.) per square kilometer following the fifth year after commercial discovery but are deductible from royalties. The group is currently conducting seismic surveys and plans to drill at least one well in 1976. Exploration offshore Viet Nam is in its early stages, the first concessions having been awarded in mid-1973. Only two wells are known to have been drilled to date, both by the same major oil company and both in the same sedimentary basin in which Cigol's concession is located. This company reported "hydrocarbon indications" in its first well (about 100 miles from Cigol) and significant recoveries of oil and gas in the second (about 80 miles from Cigol). Two wells are currently being drilled and several more wells are expected to be drilled in 1975 by others on blocks in which Cigol has no interest in the general area.

Turkey. Cigol has a 20% interest in a 123,550-acre licence in the vicinity of Yasinca, Turkey. The initial well drilled in 1974 at a cost to Cigol of \$160,000 resulted in an oil discovery, the commercial attractiveness of

which is still being assessed. Upon any discovery the group is obligated to define and develop the field and is entitled to leases of up to 61,775 acres having a twenty-year term which may be renewed at the discretion of the Turkish Government for two additional ten-year terms. Royalty is 12½% and annual lease rentals per acre range from \$.009 in the first year to \$.030 in the fifth and succeeding years and, if commercial production does not occur in the first year or thereafter ceases, the lease may lapse.

Offshore Louisiana. Cigol in early 1974 acquired varying interests in four leases offshore Louisiana comprising 17,374 gross acres of which Cigol's net acreage share is 951 acres. The leases were acquired by tender from the United States Government with Cigol's cost being \$3,696,630. The leases are for five years and so long thereafter as production continues and call for rentals of \$3.00 per acre and a royalty of 16⅔%. Cigol drilled and abandoned a well in mid-1974 on one of the leases, drilled a gas discovery on two of the other leases in late 1974, and plans to drill a well on the remaining lease in 1975. Neither of the discoveries is considered to be of significant benefit to Cigol.

Drilling Activity

The following table sets forth the gross and net wells which Cigol drilled or participated in during the periods indicated, excluding wells drilled or participated in by subsidiaries for periods prior to their acquisition by Cigol inasmuch as their exploration staffs were not continued with Cigol, but otherwise including 100% for majority-owned subsidiaries:

	Exploratory Wells(1)						Development Wells(1)					
	Gross Wells			Net Wells			Gross Wells			Net Wells		
	Productive			Productive			Productive			Productive		
	Oil	Gas	Dry Holes	Oil	Gas	Dry Holes	Oil	Gas	Dry Holes	Oil	Gas	Dry Holes
1969												
Canada(2).....	5	10	43	2.2	3.7	23.1	14	10	7	2.5	2.4	1.4
North Sea.....	—	—	1	—	—	0.2	—	—	—	—	—	—
1970												
Canada(2).....	—	9	43	—	3.5	13.0	24	5	2	2.9	1.7	1.1
North Sea.....	—	—	1	—	—	0.1	—	—	—	—	—	—
Canadian Frontier	—	1	1	—	.03	.015	—	—	—	—	—	—
1971												
Canada(2).....	3	5	37	1.4	2.7	13.6	17	7	10	7.7	0.7	5.5
North Sea.....	—	1	—	—	.15	—	—	—	—	—	—	—
Canadian Frontier	—	2	—	—	.06	—	—	—	—	—	—	—
1972												
Canada(2).....	4	17	38	1.13	7.51	17.49	21	10	7	6.28	2.83	3.32
North Sea.....	—	1	—	—	.20	—	—	—	—	—	—	—
Malta.....	—	—	1	—	—	.21	—	—	—	—	—	—
Canadian Frontier	—	3	2	—	.09	.23	—	—	—	—	—	—
1973												
Canada(2).....	3	20	50	1.73	7.61	19.78	26	6	9	4.71	1.93	2.44
North Sea.....	—	—	1	—	—	.2	—	—	—	—	—	—
Canadian Frontier	—	—	2	—	—	.4	—	—	—	—	—	—
Adriatic Sea.....	—	—	1	—	—	1.00	—	—	—	—	—	—
Tunisia.....	—	—	1	—	—	.38	—	—	—	—	—	—
1974 (through September 30)												
Canada(2).....	5	14	26	2.14	6.04	10.85	3	1	2	.575	.75	.35
Canadian Frontier	—	1	10	—	.01	1.41	—	—	—	—	—	—
Turkey.....	1	—	—	.20	—	—	—	—	—	—	—	—
United States....	5	2	21	1.65	.50	3.76	—	5	2	—	.30	.10
North Sea.....	—	—	1	—	—	.15	—	—	—	—	—	—

(1) In general, an "exploratory well" is a well drilled either in search of a new and as yet undiscovered pool of oil or gas or with the hope of greatly extending the limit of a pool already partly developed. All other wells are "development wells". A "productive well" is a well capable of producing oil or gas in quantities deemed by the operator to justify its completion, although not necessarily to justify the costs already incurred in drilling the well. All other wells are considered dry holes. "Gross wells" refers to all wells drilled on the properties referred to above, and "net wells" reflects the aggregate of the percentage working interests of Cigol in the gross wells. Does not include interests solely through share ownership in wells drilled by Panarctic or Elf.

(2) Consists of wells in the Western Sedimentary Basin (in the Provinces of Alberta, British Columbia and Saskatchewan) in all years and one well in Ontario in 1969.

Exploration and Acquisition Costs

The following table sets forth the amounts expended by Cigol in drilling and exploration activities and in oil and gas property acquisitions during the periods indicated, excluding amounts expended by subsidiaries for periods prior to their acquisition by Cigol in order to correspond with the presentation of drilling activity information, but otherwise including 100% for majority-owned subsidiaries:

	<u>Oil and Gas Property Acquisition Expenditures</u>	<u>Drilling and Exploration Expenditures(1)</u>
	(in thousands of dollars)	
1969		
Canada (2).....	\$ 5,071	\$ 3,914
North Sea.....	—	442
Canadian Frontier.....	1,620	245
Other foreign areas.....	—	420
1970		
Canada (2).....	\$ 794	\$ 4,851
North Sea.....	—	131
Canadian Frontier.....	—	196
Other foreign areas.....	—	319
1971		
Canada (2).....	\$ 3,608	\$ 5,290
North Sea.....	—	889
Canadian Frontier.....	—	189
Malta.....	—	401
Other foreign areas.....	—	212
1972		
Canada (2).....	\$ 1,446	\$ 4,084
North Sea.....	—	390
Canadian Frontier.....	9	2,037
Malta.....	—	844
Other foreign areas.....	—	457
1973		
Canada (2).....	\$ 9,172	\$ 5,719
North Sea.....	—	436
Canadian Frontier.....	—	3,188
Adriatic Sea.....	—	632
Tunisia.....	—	1,136
Other foreign areas.....	—	506
1974 (through September 30)		
Canada (2).....	\$ 6,360	\$ 5,191
Canadian Frontier and offshore.....	—	4,653
Turkey.....	—	186
North Sea.....	—	353
United States.....	4,053	111
Other foreign areas.....	1,945	1,187

(1) Does not include drilling and exploration expenses incurred by Cigol on Elf properties. See "Exploration and Development—Canadian Frontier" and "Capital Expenditures".

(2) Consists of wells and property in the Western Sedimentary Basin (in the Provinces of Alberta, British Columbia and Saskatchewan) in all years and one well in Ontario in 1969.

During 1973 Cigol incurred approximately \$862,000 for rentals and fees in respect of its exploration acreage and estimates 1974 costs to have been approximately \$877,000.

Oil Gathering and Transmission

Cigol primarily through Trans-Prairie owns and operates transmission pipelines and gathering systems which (a) transport crude oil produced by Cigol and others from the Joarcam field in Alberta to the trunk line system of Interprovincial Pipe Line Limited near Edmonton, (b) transport crude oil produced by Cigol and others from the Golden-Lubicon area of Northern Alberta to Rainbow Pipeline Company, Ltd. near Edmonton,

and (c) gather crude oil produced primarily by others from oil fields in northeast British Columbia, southeast Saskatchewan and southwest Manitoba and transport it to trunk line systems of major pipeline companies and to a refinery in British Columbia. The pipeline in British Columbia also carries refinery products for others. The following table shows the miles of gathering and transmission lines in these systems:

Province	Miles of Line	
	Gathering	Transmission
Alberta		
Joarcam.....	35	39
Golden-Lubicon.....	9	—
British Columbia.....	149	170
Manitoba.....	125	31
Saskatchewan.....	127	15
Total.....	445	255

Crude oil is transported by the systems under short-term contracts with crude oil purchasers. These contracts are standard for the Canadian oil industry, and the duration of a transportation contract is always dependent on the duration of the related contract between the crude oil producer and the crude oil purchaser.

The following table shows the aggregate deliveries for the systems for the periods indicated:

Province	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of barrels)						
Alberta.....	2,064	2,177	2,350	2,929	3,755	2,793	2,903
British Columbia.....	23,803	24,157	23,633	22,291	21,192	16,026	14,490 ⁽¹⁾
Manitoba.....	6,320	6,005	5,687	5,467	5,189	3,915	3,575 ⁽¹⁾
Saskatchewan.....	13,001	12,292	11,260	10,827	10,311	7,824	6,122 ⁽¹⁾
Total.....	45,188	44,631	42,930	41,514	40,447	30,558	27,090 ⁽¹⁾

(1) Decline in volumes is attributable to decrease in production in the areas served. See "Lines of Business".

Natural Gas Gathering, Transmission and Distribution

Industrial Gas System

Cigol owns and operates a natural gas gathering and transmission system, consisting of approximately 310 miles of pipeline and one processing plant, in the Edmonton, Alberta area for the purpose of gathering natural gas produced by Cigol and others and transmitting it to several industrial customers and others.

Approximately 60% of the natural gas supply for the industrial gas system is purchased from unrelated parties under long-term contracts, expiring between 1976 and 1990. The remainder is supplied by Cigol's net interest in gas produced from wells in which Cigol owns an interest, together with gas produced from such wells for royalty owners. The management of Cigol believes that the reserves available or committed to the industrial gas system from present sources of supply are sufficient to satisfy its obligations under its fixed-price agreements with the system's present customers, which expire between 1974 and 1983. However, no significant additional sources of supply in the Edmonton area have become available to the system during the last five years, and a very substantial increase in gas sales prices in the area would be necessary to make economically feasible the importation of gas from other areas. For the year 1973 and the first nine months of 1974, the contribution of the system to Cigol's earnings before income taxes, extraordinary items and minority interests was approximately 18.5% and 12.5%, respectively.

In the year 1973, the largest customer accounted for approximately 23.5% and the next four largest customers accounted for approximately 62.7% of the gas sold from the industrial gas system.

Utility Gas Systems

Through Columbia Natural Gas Limited, a gas utility subsidiary of Trans-Prairie, Cigol owns and operates a transmission and distribution system, consisting of 176 miles of transmission and 226 miles of distribution and services pipelines, serving several communities and industries in the East Kootenay area of British Columbia. Natural gas for this system is purchased from Westcoast Transmission Company Limited and Alberta and Southern Gas Company Ltd. under agreements expiring in 1981 and 1992, respectively. Total quantities available under these contracts amount to approximately 160% of present demand, and qualifying clauses in export licences granted to the gas suppliers of Columbia Natural Gas Limited will ensure that additional gas quantities will be made available if required for local consumption.

The decrease in earnings attributable to the utility gas system as shown under "Lines of Business" between the nine months ended September 30, 1973 and the nine months ended September 30, 1974, is a result of the increased cost of purchased gas to the utility system. On November 1, 1974, the British Columbia Energy Commission granted to Columbia Natural Gas Limited an interim increase, effective November 1, 1974, in residential and commercial rates which offsets the increased costs of gas supply but which interim increase is subject to ratification at a public hearing to be held in February, 1975.

Through another gas utility subsidiary of Trans-Prairie, Cigol distributes in three small communities in northeastern Alberta gas which it purchases from Cold Lake Pipe Line Company Limited under an agreement expiring December 31, 1975. Provincial regulations ensure continued contractual supply to these local customers.

The following table sets forth the volumes of gas sold from the industrial and utility gas systems for the periods indicated:

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of mcf)						
Industrial gas system.....	40,169	39,588	39,797	43,725	45,699	33,793	33,301
Utility gas system.....	3,742	4,548	6,126	7,305	7,730	5,161	5,410
Total.....	43,911	44,136	45,923	51,030	53,429	38,954	38,711

Liquefied Petroleum Gas

Cigol sells liquefied petroleum gas for home consumption and commercial and industrial use, and distributes customers storage tanks, appliances and equipment, in Western Canada and in the States of Washington and Oregon. The sales of liquefied petroleum gas for the periods indicated below were approximately as follows:

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
	(in thousands of imperial gallons)						
	59,800	67,400	76,500	88,400	95,900	60,700	67,700

Cigol purchases in Alberta approximately 90% of its requirements of liquefied petroleum gas from unrelated parties at competitive prices, normally under one-year contracts. One supplier accounted for approximately 22% of Cigol's total requirements for the twelve months ended December 31, 1973 and five others together accounted for another 34% of such requirements. Cigol currently expects to be able to satisfy its purchase requirements and to export required volumes to Washington and Oregon. At September 30, 1974, 52 distribution plants owned by Cigol were in operation as part of this system.

Capital Expenditures

The following table sets forth the capital expenditures of Cigol during the periods indicated, including amounts expended by pooled subsidiaries for periods prior to their acquisition by Cigol and including 100% for majority-owned subsidiaries:

	Year Ended December 31,					Nine Months Ended September 30, 1974
	1969	1970	1971	1972	1973	
	(in thousands of dollars)					
Exploration for oil and gas, including rentals.....	\$ 4,606	\$ 5,099(1)	\$ 6,258(1)	\$ 6,501(1)	\$10,833(1)	\$11,269(1)
Development of oil and gas properties.....	957	956	1,273	1,311	784	412
Acquisition of oil and gas rights.....	6,772	794	3,058	1,455	9,172	12,358
Plant and equipment.....	4,710	3,795	8,449(2)	6,816	4,298	2,321
Total.....	<u>\$17,045</u>	<u>\$10,644(1)</u>	<u>\$19,038(1)</u>	<u>\$16,083(1)</u>	<u>\$25,087(1)</u>	<u>\$26,360(1)</u>

- (1) Does not include drilling and exploration expenses of \$4,274,000, \$5,262,000, \$4,887,000, \$4,417,000, and \$3,903,000 incurred by Cigol in 1970, 1971, 1972, 1973 and the nine months ended September 30, 1974, respectively, on Elf properties to acquire Elf shares. See "Exploration and Development".
- (2) Includes \$1,995,000 representing the net book value of plant and equipment of companies purchased by Cigol during the year, net of previous investment therein.

The management of Cigol anticipates that the capital expenditures of Cigol and its subsidiaries for the year 1974 have aggregated approximately \$32,000,000 (excluding approximately \$4,700,000 incurred on Elf properties). Capital expenditures in 1975, exclusive of the cost of acquisition of Great Plains, are estimated to be between \$17,000,000 and \$23,000,000, all of which are expected to be financed by funds generated from operations.

Competition and Regulation

The petroleum exploration and production industry in Canada and in foreign areas is comprised of a large number of companies which compete generally with each other in acquiring properties, in exploring for and developing new sources of production, and in selling crude oil, natural gas liquids and natural gas. The industry also competes with other industries in supplying energy and fuel. The principal area of competition encountered by Cigol within the industry is in the acquisition of properties. There are many companies engaged in oil and gas exploration in the Canadian provinces, in the Canadian Frontier, and foreign areas, many of which have greater financial and other resources than Cigol. As a result of current market conditions, customary marketing arrangements and government regulation, there is no significant competition between producers in areas from which Cigol is now taking production.

Cigol's oil gathering and transmission systems are the only ones serving the producing fields with which they are connected. Unless production in the areas involved should exceed the capacity of the system, the likelihood of competition is remote. The systems are subject to regulation as to rates and tariffs under existing law, but currently are not regulated.

Cigol's industrial gas system in the Edmonton area, which at present is not regulated as to rates and tariffs, competes with a regulated gas utility company, both in procuring gas for its system and in obtaining customers. The utility company has substantially greater financial resources and access to substantially greater economically marketable reserves. Cigol's gas utility system in British Columbia has at present no significant competition but is regulated as to rates and tariffs.

Cigol competes with two to six other companies, generally on the basis of price and service, in each of the areas in which it sells liquefied petroleum gas products.

Cigol's operations and business are significantly affected by governmental regulations and controls and by tax legislation. In general, existing legislation in Canada and many other countries authorizes the regulation and control of almost every feature of the production, transmission, distribution and sale of crude oil and natural gas liquids and natural gas and in most cases requires governmental approval to export from the country involved. See "Marketing" and "Recent Government Policy".

The Gas Utilities Act of Alberta requires Cigol to procure the approval of the Public Utilities Board of Alberta before issuing any shares, bonds, debentures or other securities (other than certain short-term debt), before mortgaging any of its property, or before selling any of its property otherwise than in the ordinary course of business.

Title to Oil and Gas Interests

While no examination of titles to the oil and gas properties in which Cigol holds interests and rights has been made for purposes of this Information Circular and Proxy Statement, Cigol believes that, insofar as matters of title are concerned, the manner in which these interests and rights have been acquired by Cigol is sound and in accordance with established methods employed by prudent petroleum and natural gas companies in the areas concerned.

Personnel

At September 30, 1974, Cigol had 604 employees, of whom 54 employees were covered by union contracts. Cigol believes that it has satisfactory labour relations.

BUSINESS AND PROPERTIES OF GREAT PLAINS

General

As described under "Acquisition of Great Plains", Cigol has agreed, subject to the satisfaction of certain conditions, to acquire for cash all of the shares of Great Plains. Great Plains has, since 1950, been engaged in the business of exploring for and producing crude oil and natural gas in Canada, and, more recently, has conducted a moderate mining exploration program in Canada. Great Plains conducts its operations directly and through subsidiaries, all of which are wholly-owned. Unless the context otherwise indicates, the term "Great Plains" includes Great Plains and its subsidiaries.

All information provided with respect to the business and properties of Great Plains has been furnished to N & C and Cigol by Great Plains for inclusion in this Information Circular and Proxy Statement; Cigol's acquisition of Great Plains has not been completed, and N & C and Cigol are not in a position to verify all of such information.

Production

The following table sets forth the net production, after deducting all royalties of third parties, of crude oil and natural gas liquids and of natural gas accruing to the working and royalty interests of Great Plains for the periods indicated:

	Year Ended December 31,					Nine Months Ended September 30,	
	1969	1970	1971	1972	1973	1973	1974
Crude oil and natural gas liquids							
							(in thousands of barrels)
Alberta.....	2,455	2,653	2,750	2,951	3,022	2,250	1,872
Saskatchewan.....	574	600	552	530	526	401	220
TOTAL.....	<u>3,029</u>	<u>3,253</u>	<u>3,302</u>	<u>3,481</u>	<u>3,548</u>	<u>2,651</u>	<u>2,092</u>
Natural gas							
							(in thousands of mcf)
Alberta.....	<u>8,581</u>	<u>9,379</u>	<u>10,211</u>	<u>12,193</u>	<u>15,907</u>	<u>11,251</u>	<u>12,038</u>

Net production of crude oil and natural gas liquids during the first nine months of 1974 compared with 1973 was lower due primarily to increased provincial government royalties.

A significant portion of Great Plains' production of crude oil and natural gas liquids is derived from the Bigoray, Hamilton Lake, Harmattan, and Pembina areas in Alberta. There is little curtailment of crude oil production due to pro-rationing in those areas in Alberta in which Great Plains has an interest.

A significant portion of Great Plains' natural gas production is derived from the Calgary, Harmattan, and Minnehik-Buck Lake areas in Alberta. Gas sales from Harmattan-Elkton, which commenced in late 1972, and from Harmattan East, which commenced in 1973, are currently limited by conservation regulations to 40,000 mcf per day and 60,000 mcf per day, respectively. Great Plains estimates that gas sales from each of these fields will ultimately approximate 120,000 mcf per day. Great Plains' interest in this gas production is 7.6% in Harmattan-Elkton and 14.6% in Harmattan East.

Marketing

All of the crude oil produced from wells in Canada in which Great Plains has interests is marketed at current field prices under short-term contracts (normally cancellable on 30 days' notice, except as may be amended by governmental authorities from time to time) which are standard for the Canadian oil industry.

The following table shows the weighted average price per barrel received from the production and sale of crude oil and natural gas liquids and from royalties on crude oil and natural gas liquids (expressed in terms of weighted average price per barrel) during the periods indicated:

Year Ended December 31,					Nine Months Ended September 30,	
1969	1970	1971	1972	1973	1973	1974
\$2.43	\$2.47	\$2.69	\$2.69	\$3.33	\$3.19	\$5.46

The major portion of Great Plains' proved developed natural gas reserves is subject to long-term sales contracts expiring between 1982 and 1997. Approximately 75% of Great Plains' gas sales is to a purchaser for export to the United States under contracts which provide for an average price of 60¢ per mcf effective July 1, 1974 (increased from approximately 30¢ per mcf) and provide for price renegotiations on July 1, 1975, and each two years thereafter. Approximately 15% of Great Plains' production is sold to interprovincial pipeline companies in Canada at varying prices, for the most part ranging between 24¢ and 60¢ per mcf, with rights to renegotiate the price at varying future dates. The remainder of Great Plains' gas production is sold to local utilities in Alberta under contracts which have recently been or are currently being renegotiated and which contain or are expected to contain a two-year price renegotiation clause. In addition to the approximately 75% of Great Plains' gas production which is exported directly to the United States, Great Plains sells approximately 15% of its gas production to interprovincial pipeline companies in Canada and is unable to determine what portion of this gas is exported to the United States as it enters a stream that supplies both domestic and export users.

The weighted average prices per mcf received for gas sold during the periods indicated below were as follows:

Year Ended December 31,					Nine Months Ended September 30,	
1969	1970	1971	1972	1973	1973	1974
18.0¢	18.5¢	18.8¢	22.0¢	29.2¢	28.8¢	35.7¢

See "Business and Properties of Cigol—Recent Government Policy" for the effect of recent royalty, marketing and tax changes, and "Business and Properties of N & C—Natural Gas Supply" and "Business and Properties of Cigol—Marketing" as to Canadian gas export policy and as to informal governmental crude oil price-fixing and the Federal export tax on crude oil.

Reserves

Great Plains' net proved reserves as at September 1, 1974, were summarized in a report dated January 10, 1975 by DeGolyer and MacNaughton, Dallas, Texas, U.S.A., as follows:

Area	Crude Oil (bbls)	Natural Gas Liquids (bbls)	Natural Gas (mcf)
Alberta.....	26,593,518	8,272,344	297,940,662
British Columbia.....	—	—	1,860,250
Saskatchewan.....	3,184,624	—	—
Royalties.....	1,054,200	—	2,304,000
Total Net Reserves.....	<u>30,832,342</u>	<u>8,272,344</u>	<u>302,104,912</u>

DeGolyer and MacNaughton defines proved reserves as those which have been proved to a high degree of certainty for commercial production by reason of actual well completions, significant drill-stem tests, or successful secondary recovery operations. Gas reserves reported herein represent saleable dry gas volumes after deducting estimated shrinkage due to plant extraction of liquids and field and fuel losses, and are calculated using 14.65 pounds per square inch absolute and 60 degrees Fahrenheit as measurement units. Essentially all of these reserves are developed.

Net reserves are those owned by Great Plains after deducting royalties which, when a function of price, were estimated at rates promulgated in the Alberta Petroleum Exploration Plan of December, 1974, and at export prices for gas announced in December, 1974 by the Canadian Government to be effective on January 1, 1975.

Heavy Oil Properties

Great Plains hold interests in 38,000 gross acres (10,000 net acres) of heavy oil properties in the Cold Lake area of Alberta. Although these properties are not presently economically producible, they may become so in time if higher crude oil prices are allowed to reach the producer, and/or improvements in technology are made. Great Plains is receiving the records of an extensive experimental program being conducted by a major oil company on leases adjoining Great Plains' properties. Great Plains has also negotiated an agreement with another leaseholder to develop lands jointly in the Cold Lake area. In addition, Great Plains has a 4% net profits interest in an undeveloped bituminous sands lease in the Athabasca Oil Sands area of Alberta.

These interests are not included in the table under "Reserves" appearing above.

Exploration and Development

The following table sets forth information as of September 30, 1974, with respect to the producing and exploratory oil and gas acreage in which Great Plains holds or can earn interests. The table does not include acreage in which Great Plains holds royalty interests. See "Royalty Interests".

Geographic Area	Leases (1)		Reservations, Permits, and Concessions (1)	
	Gross Acres (2)	Net Acres (2)	Gross Acres (2)	Net Acres (2)
Canada				
Alberta.....	1,180,000	470,000	102,000	45,000
British Columbia.....	31,000	19,000	465,000	138,000
Saskatchewan.....	139,000	42,000	28,000	17,000
Manitoba.....	600	500	—	—
Quebec.....	1,000	200	—	—
Canadian Frontier				
Arctic Islands (3)(5).....	—	—	7,322,000	4,590,000
Northwest Territories (4)(5).....	55,000	11,000	2,013,000	664,000
Yukon (5).....	65,000	33,000	1,645,000	658,000
Foreign (6)				
United States.....	638,000	386,000	—	—
Puerto Rico.....	—	—	1,559,000	390,000
TOTAL (7).....	<u>2,109,600</u>	<u>961,700</u>	<u>13,134,000</u>	<u>6,502,000</u>

(1) See "Business and Properties of Cigol—Exploration and Development" for description of leases, reservations, permits and concessions.

(2) "Gross" acres represent the total number of acres in which Great Plains has or can earn any working interest or is entitled to a carried interest. "Net" acres represent the aggregate working interest and carried interest which Great Plains holds or can earn in the gross acres after deducting the working interests held by unrelated parties.

(3) The acreage shown includes an option to earn an undivided 5% interest in 272,000 acres in the Neil Peninsula area and a 30% interest in 316,000 acres on Bathurst Island. In addition and not included in the acreage shown, Great Plains has filed applications with the Government of Canada for exploratory permits in the Arctic covering 7,586,000 acres of offshore lands in the Canada Basin, and 4,250,000 acres in the Kane Basin area primarily offshore and adjacent to Ellesmere Island. Great Plains also has a 15% share in 10,905,000 acres filed on in the Gulf of Boothia. The issuance of new permits has been suspended by the Government of Canada until revised Canada Oil and Gas Land Regulations are promulgated.

(4) The acreage shown includes an option covering 1,500,000 gross acres in the Horton River area under which a 20% working interest may be earned by drilling.

(5) See "Business and Properties of Cigol—Exploration and Development—Canadian Frontier" as to Federal permits.

(6) Great Plains transferred as of January 1, 1975 all of its non-Canadian oil and gas interests, none of which were productive, to an affiliate at independently appraised values.

(7) To maintain its percentage interest in leases, reservations, permits and concessions, Great Plains may be required to satisfy certain work or cash obligations. Because Great Plains participates with others in many of its leases, reservations, permits and concessions, the continuation of its interests therein may depend on the continued ability and willingness of the co-owners to satisfy the remaining portion of such required work or cash obligations. Great Plains' holdings may also be reduced from time to time as a result of dispositions of interests in consideration of the performance of exploratory work or as a result of the surrender or other disposition of properties.

The following are the areas of most current exploration and development interest of Great Plains:

Western Canada. In 1974, Great Plains participated in 19 gross (10.7 net) exploratory wells in Western Canada. Of these wells, 7 gross (1.1 net) were drilled at no cost to Great Plains on lands farmed out to other companies. Great Plains' oil and gas exploration was centered on acreage in the prospective foothills trend of Alberta where several prospects were evaluated by seismic and drilling operations. Great Plains also explored in southeastern Alberta where small gas discoveries were made in two of three wells drilled near Burdett. One other small gas discovery was made in the Hotchkiss area of Alberta. The results of seismic operations conducted on a 12,800-acre drilling option in the Bull Creek area northwest of Calgary in Alberta are presently being evaluated. It is expected that early in 1975 seismic operations will be conducted on an 11,500-acre permit recently purchased at Graham River in the foothills of northeastern British Columbia.

In 1974 development drilling activities were centered in the Pembina area of Alberta where 20 gross wells (3.75 net) were drilled on land in which Great Plains holds an interest. Of these wells, 19 were completed as oil wells and one was abandoned. Great Plains also participated in 8 gross (3.25 net) development wells drilled in the Twining field in Alberta, all of which were completed as oil wells. Great Plains also participated in development drilling in Alberta at Provost, Bigoray, Hotchkiss and Leafland.

Canadian Frontier. In 1972 and 1973, Great Plains conducted surface geological work on its holdings on Northeast Ellesmere Island. In 1974, under Great Plains' sponsorship, a 500-mile marine seismic program was carried out in the adjacent Kane Basin offshore area. Interpretation of the marine seismic data is in progress. Great Plains holds a 100% interest in 3.5 million acres onshore in this area and has applied for an additional 4.25 million acres in the offshore Kane Basin area.

Early in 1974, Great Plains participated in a well located in the Neil Peninsula of Ellesmere Island. This test, the most northerly wildcat ever drilled, was abandoned at 8,030 feet. Great Plains, together with a major oil company, drilled the well under a farmout agreement and Great Plains earned 5% in 185,000 gross acres (9,200 net acres) plus an option in an additional 271,600 gross acres.

On December 31, 1973, the option of Panarctic Oils Ltd. ("Panarctic") to earn certain interests in Great Plains' Arctic Islands acreage, totalling 762,300 gross acres (361,000 net acres) expired and Great Plains assumed operatorship of these lands. A 90-mile seismic program on the Bathurst South Block (324,000 gross acres) was conducted and results are being reviewed. A further 90-mile seismic program on Bathurst North (473,600 gross acres) is planned for 1975. Results of the initial seismic program were encouraging. Great Plains holds interests ranging from 50% to 100% in these Bathurst properties and may increase its interests in certain of the partially-owned permits to 80% by drilling. The closest extremity of the Bathurst Island properties is 45 miles from the Panarctic et al. Bent Horn well on Cameron Island which is reported to have a flow potential of 500 barrels of oil per day.

On Loughheed Island, Great Plains participated in a 233-mile seismic survey operated by Panarctic in 1974. The survey indicates the presence of a structure separate from that on which the first Loughheed test was drilled and abandoned in 1971. Drilling of a second well on Loughheed Island is expected to commence early in 1975 at Panarctic et al. Pat Bay A-72, which will be a 10,600-foot test. Panarctic will pay for Great Plains' share of well costs under a farmout agreement involving 56,300 gross acres. Following the completion of the

well, Great Plains' interest in the farm-out lands will be 10%. Great Plains will retain its 20% interest in 417,900 acres covering the balance of Loughheed Island where other structures have been indicated as a result of seismic work.

On the northwest area of Melville Island, Great Plains participated in 1974 in a joint seismic program operated by Panarctic. Further data must be acquired and interpretation made before deciding whether or not drilling operations will be undertaken.

In the Old Crow area of the Yukon Territory, a major Canadian oil company has agreed to expend \$1.3 million on seismic operations on Great Plains' holdings, consisting of 647,953 net acres (1,619,890 gross acres); however, the seismic operations have been halted due to environmental and native rights issues. When and if operations are permitted to resume, such company must fulfil its seismic obligations in the initial year and has options to extend the program by conducting more seismic operations and may earn certain interests by drilling one or more wells.

In the Horton River area of the Northwest Territories, Great Plains is participating in a 300-mile seismic program on a 1.5 million acre block held under option. This program will cost up to \$1.5 million and Great Plains' share will be 40% thereof. The closest portion of the holding is 30 miles from the Ashland Tedji Lake F-24 gas discovery made in early 1974. That discovery encountered hydrocarbons in a formation not previously known to be productive in that area.

As to production and transportation thereof in the Canadian Frontier, see "Business and Properties of Cigol—Exploration and Development—Canadian Frontier".

Royalty Interests

At September 30, 1974, Great Plains owned gross overriding royalty interests (under which the holder is entitled to a percentage of production without obligation to pay any capital or production expenses) in 211,000 acres in the Arctic and 379,000 acres in Western Canada. For the year 1974 up to and including September the income received from royalty interests in Western Canada amounted to \$415,000.

Drilling Activity

The following table sets forth the gross and net wells which Great Plains drilled or participated in during the periods indicated:

	Gross Exploratory Wells (1)(2)(4)	Net Exploratory Wells(1)(3)			Gross Development Wells (1)(2)	Net Development Wells(1)(3)		
		Oil/Gas	Dry	Total		Oil/Gas	Dry	Total
1969.....	64	0.45	8.20	8.65	65	13.93	3.61	17.54
1970.....	63	5.10	10.13	15.23	39	5.22	1.32	6.54
1971.....	62	2.70	9.40	12.10	24	5.85	0.30	6.15
1972.....	59	3.20	9.00	12.20	31	2.38	3.14	5.52
1973.....	41	0.67	4.83	5.50	62	5.26	2.54	7.80
1974 to September 30..	26	0.97	6.75	7.72	38	11.48	0.58	12.06

(1) An "exploratory well" is, in general, a well drilled either in search of a new and as yet undiscovered pool of oil or gas or with the hope of greatly extending the limit of a pool already partly developed. All other wells are "development wells".

(2) "Gross wells" means the total number of wells in which Great Plains has a working, carried or royalty interest.

(3) "Net wells" means the number of gross wells in which Great Plains has a working or carried interest multiplied by Great Plains' percentage working or carried interest therein.

(4) The table includes 5 gross exploratory wells drilled in foreign areas, of which 0.13 were net gas wells and 0.38 were net dry holes.

Exploration and Acquisition Costs

The following table sets forth the amounts expended by Great Plains in drilling and exploration activities and in oil and gas property acquisitions during the periods indicated:

	Oil and Gas Property Acquisition Expenditures	Drilling and Exploration Expenditures
	(in thousands of dollars)	
1969		
Canada(1)	\$1,495	\$3,981
Canadian Frontier	100	563
Foreign (2)	—	—
1970		
Canada(1)	\$ 820	\$4,345
Canadian Frontier	2	641
Foreign (2)	—	—
1971		
Canada(1)	\$3,177	\$3,902
Canadian Frontier	23	84
Foreign (2)	—	—
1972		
Canada(1)	\$ 257	\$4,099
Canadian Frontier	52	367
Foreign (2)	106	77
1973		
Canada(1)	\$5,786	\$3,156
Canadian Frontier	—	871
Foreign (2)	533	1,641
1974 (through September 30)		
Canada(1)	\$ 126	\$3,932
Canadian Frontier	288	569
Foreign (2)	1,240	401

(1) "Canada" consists of wells and property in the Western Sedimentary Basin (in the Provinces of Alberta, British Columbia and Saskatchewan) in all years and one well in Quebec in each of 1971 and 1972.

(2) Great Plains has disposed of all of its foreign acreage holdings.

During 1973 Great Plains incurred approximately \$437,000 for rentals and fees in respect of its exploration acreage, and estimates 1974 costs to have been approximately \$300,000.

Mining Exploration

Since 1965 Great Plains has been carrying out exploration programs mainly in the search for copper, lead, zinc, silver and gold in Ontario, British Columbia, the Northwest Territories, Yukon Territory, Saskatchewan, and Quebec. The majority of the exploration programs are joint ventures operated by Great Plains with mining companies as partners. Some of the prospects have been explored by diamond-drilling, including three properties that will be evaluated by further diamond-drilling in 1975. To date, no deposits of commercial value have been discovered.

The following table sets forth information as at September 30, 1974, with respect to the mineral acreage in which Great Plains holds or can earn interests:

	Gross Acres*	Net Acres*
Alberta	33,640	33,640
British Columbia	25,081	20,597
Northwest Territories	368,327	283,669
Ontario	4,560	4,560
Quebec	7,160	4,380
Saskatchewan	4,030	3,794
Yukon	8,050	3,325
	<u>450,848</u>	<u>353,965</u>

*"Gross Acres" represents the total number of acres in which Great Plains has or can earn any working interest. "Net Acres" represents the aggregate working interest which Great Plains holds or can earn in the gross acres after deducting the working interests held by unrelated parties.

As to mineral exploration expenses, see Great Plains' consolidated statement of income appearing elsewhere in this Information Circular and Proxy Statement.

Capital Expenditures

The following table sets forth the capital expenditures of Great Plains during the periods indicated:

	Year Ended December 31,					Nine Months Ended September 30, 1974
	1969	1970	1971	1972	1973	
	(in thousands of dollars)					
Exploration for oil and gas, including rentals.....	\$ 2,801	\$ 3,650	\$ 3,068	\$ 3,657	\$ 4,561	\$ 3,648
Development of oil and gas properties.....	1,743	1,336	918	886	1,107	1,254
Acquisition of oil and gas rights..	1,595	822*	3,200*	415*	6,319*	1,654*
Plant and equipment.....	920	1,567	1,983	2,374	2,313	1,475
Total.....	<u>\$ 7,059</u>	<u>\$ 7,375</u>	<u>\$ 9,169</u>	<u>\$ 7,332</u>	<u>\$14,300</u>	<u>\$ 8,031</u>

*Does not include the net acquisition cost of sub-leases in the amounts of \$912,000 in 1970 and \$2,190,000 in 1971, nor the subsequent repayment of \$1,200,000, \$1,390,000 and \$512,000 in 1972, 1973 and 1974, respectively.

The management of Great Plains estimates that capital expenditures of Great Plains for the year 1974 aggregated approximately \$10,800,000.

Competition and Regulation

See "Business and Properties of Cigol—Competition and Regulation" as to a general statement of factors affecting the operations of oil and gas exploration and producing companies in Canada. For further information, see "Business and Properties of Cigol—Marketing" and "Business and Properties of Cigol—Recent Government Policy".

Title to Oil and Gas Interests

While no examination of titles to the oil and gas properties in which Great Plains holds interests and rights has been made for purposes of this Information Circular and Proxy Statement, Great Plains believes that, insofar as matters of title are concerned, the manner in which these interests and rights have been acquired by it is sound and in accordance with established methods employed by prudent petroleum and natural gas companies in the areas concerned.

Personnel

At September 30, 1974, Great Plains had 120 employees, none of whom was covered by a union contract. Great Plains believes that it has satisfactory labour relations.

Background

The following table shows the high and low prices of the shares of Great Plains on The Toronto Stock Exchange for the periods and dates indicated:

	<u>High</u>	<u>Low</u>
1970.....	\$33.38	\$16.00
1971.....	36.75	28.50
1972.....	36.00	28.50
1973.....	38.00	25.00
1974 (through April 24).....	30.50	26.75

After the close of the Toronto and Montreal Stock Exchanges on April 24, 1974, Burmah Oil Canada Limited, which had owned since 1963 65% or more of the outstanding shares of Great Plains, announced its intention to purchase all of the shares of Great Plains not held by it at that time at \$40.00 per share, and pursuant to its offer of June 7, 1974 and statutory compulsory acquisition provisions subsequently acquired all of such shares at that price.

On August 21, 1974 Great Plains redeemed its outstanding 5% Convertible Subordinated Debentures in the principal amount of \$30,000,000 at par plus a premium of 5%. See "Exploration and Development" as to the sale of non-Canadian properties.

MANAGEMENT OF CIGOL

Directors

All of the present Directors of Cigol were elected at the 1974 annual meeting of shareholders to serve until the 1975 annual meeting.

The following table sets forth as to each Director of Cigol (i) the year in which he first became a Director, (ii) his present principal occupation, and (iii) the approximate number of Common Shares of Cigol and of N & C of which he is, directly or indirectly, the beneficial owner:

<u>Name</u>	<u>Director Since</u>	<u>Principal Occupation (1)</u>	<u>Common Shares of Cigol Beneficially Owned(2)</u>	<u>Common Shares of N & C Beneficially Owned(2)</u>
Edward G. Battle*	1969	President of N & C	23,593	1,358
Edmund C. Bovey*	1966	Chairman of the Board of N & C	2,203	16,000
C. Spencer Clark	1966	Chairman of the Board of Cascade Natural Gas Corporation (gas distribution company); Vice-Chairman of the Board of N & C	3	6,941
Robert B. Craddock	1966	Retired executive of N & C	100	2,649
J. Ian Crookston	1965	Chairman of the Board of Nesbitt, Thomson and Company, Limited (investment dealers)	1,000	—
Edward A. Galvin*	1965	Chairman of the Board and President of Cigol	27,917	8,320(3)
Richey B. Love, Q.C.*	1965	Partner in the law firm of Macleod Dixon	12,200	—
Henry S. Romaine	1973	Senior Vice-President of The Mutual Life Insurance Company of New York(4)	100	—

<u>Name</u>	<u>Director Since</u>	<u>Principal Occupation (1)</u>	<u>Common Shares of Cigol Beneficially Owned(2)</u>	<u>Common Shares of N & C Beneficially Owned(2)</u>
Vernon Taylor	1973	Retired oil company executive	1,500	—(5)
William I. M. Turner, Jr.	1969	President and Chief Executive Officer of Consolidated-Bathurst Limited (forest products company)	200	—
Adam H. Zimmerman	1973	Executive Vice-President of Noranda Mines Limited; also President of Northwood Pulp and Timber Limited and Chairman and Chief Executive Officer of Fraser Companies Limited	500	—

*Member of the Executive Committee of the Board of Directors; Mr. Bovey is the chairman of the Executive Committee.

(1) Each of the Directors has been associated with the company or firm with which he is presently associated or an affiliate thereof for at least the past five years, except that prior to June, 1971 Mr. Taylor was a Senior Vice-President of Imperial Oil Limited and prior to December, 1970 Mr. Turner was the President of Power Corporation of Canada Limited.

(2) The information as to shares beneficially owned contained in the table and the notes thereto, not being within the knowledge of Cigol or N & C, has been furnished by the respective Directors individually. It does not include shares beneficially owned by wives of Directors as follows: Mr. Bovey—100 Common Shares of N & C; Mr. Crookston—800 Common Shares of Cigol; Mr. Galvin—5,000 Common Shares of Cigol; Mr. Love—100 Common Shares of Cigol; nor does it include 100 Common Shares of Cigol beneficially owned by a son of Mr. Turner.

(3) Mr. Galvin also beneficially owns 600 Second Preference Shares, Series B of N & C and Warrants expiring on June 1, 1977 to purchase 375 Common Shares of N & C.

(4) The Mutual Life Insurance Company of New York is the registered holder of \$3,447,000 (U.S.) aggregate principal amount of First Mortgage and Collateral Trust Bonds of N & C and of \$4,619,000 (U.S.) aggregate principal amount of First Mortgage Sinking Fund Bonds of Cigol.

(5) Mr. Taylor also beneficially owns 100 Second Preference Shares, Series B of N & C.

The Directors and Senior Officers of Cigol as a group beneficially own, directly or indirectly, 171,603 Common Shares of Cigol and 37,892 Common Shares of N & C.

Remuneration of and Transactions with Management

The following table sets forth the remuneration paid or accrued in 1973 and 1974 by Cigol and its subsidiaries to certain named Officers of Cigol and the total remuneration paid or accrued in 1973 and 1974 by Cigol and its subsidiaries to the individuals who during 1973 or 1974, as the case may be, were Directors or Senior Officers of Cigol:

<u>Name of Individual or Identity of Group</u>	<u>Capacities in which Remuneration was Received</u>	<u>1973</u>	<u>1974*</u>
Edward A. Galvin	Chairman of the Board and President and a Director of Cigol	\$104,500	\$125,100
Edward G. Battle	President and Executive Vice-President and a Director of Cigol	68,617	5,050
George T. Hefter	Vice-President, LPG Division of Cigol	42,750	49,250

<u>Name of Individual or Identity of Group</u>	<u>Capacities in which Remuneration was Received</u>	<u>1973</u>	<u>1974*</u>
Donald D. Barkwell	Vice-President and Executive Vice-President of Cigol	37,116	46,800
Other Directors and Senior Officers in the aggregate		221,514	368,294
Total to all Directors and Senior Officers as a group (20 persons)		<u>\$474,497</u>	<u>\$594,494</u>

*Not included in the table are contributions made by Cigol, at the rate of $\frac{1}{2}$ of the contributions of the employee, pursuant to the Cigol Employee Savings and Investment Plan and used to purchase Cigol Common Shares in the market. In 1973 Cigol contributed \$3,000 for Mr. Galvin, \$1,931 for Mr. Battle, \$1,288 for Mr. Hefter, \$1,106 for Mr. Barkwell, and an aggregate of \$12,565 for all Directors and Senior Officers as a group. In 1974 Cigol contributed \$3,600 for Mr. Galvin, \$1,476 for Mr. Hefter, \$1,398 for Mr. Barkwell, and an aggregate of \$13,824 for all Directors and Senior Officers as a group.

Mr. Galvin has agreed that, upon attaining the age of 65 or in certain circumstances upon earlier termination of active employment, he will act as a consultant to Cigol for a period of six years. In consideration therefor Mr. Galvin will be entitled to receive consulting fees paid on a monthly basis. On the basis of the rate of remuneration for Mr. Galvin in effect at December 31, 1974, such monthly payments would be at the rate of \$5,000.

The following table sets forth, with respect to the individuals named, and the individuals who during 1973 or 1974 were Directors or Senior Officers of Cigol, the options to purchase Common Shares of Cigol that were granted pursuant to Cigol's Key Employee Incentive Share Option Plan during the period from January 1, 1969 to January 6, 1975, the options that were exercised during such period under such Plan and under a prior employees' stock option plan, the options that were outstanding at the end of such period, and the number of Common Shares sold during such period by those of such individuals exercising options:

	<u>Number of Shares</u>	<u>Exercise Price Per Share</u>	<u>Range of Market Price During Preceding 30 Days</u>	<u>Expiry Date</u>	<u>Aggregate Exercise Price</u>	<u>Aggregate Market Price on Exercise Date</u>
Options Granted						
<u>September 23, 1969</u>						
Mr. Battle	22,500	\$ 9.50	\$ 9.25-\$11.00	Sept. 23, 1975		
Mr. Barkwell	12,500	9.50	9.25- 11.00	Sept. 23, 1975		
All Directors and Senior Officers as a group	56,500	9.50	9.25- 11.00	Sept. 23, 1975		
<u>March 8, 1971</u>						
Mr. Galvin*	25,000	10.25	10.13- 12.38	March 8, 1977		

*This option was cancelled on June 19, 1972 but reinstated on July 31, 1972.

Options Exercised

January 1, 1969 to December 31, 1972

Mr. Battle	35,000	116,667	450,625
Mr. Hefter	48,500	161,667	567,125
Mr. Barkwell	12,800	42,667	170,413
All Directors and Senior Officers as a group	200,150	667,167	2,407,951

	Number of Shares	Exercise Price Per Share	Range of Market Price During Pre- ceding 30 Days	Expiry Date	Aggregate Exercise Price	Aggregate Market Price on Exercise Date
<u>January 1, 1973 to January 6, 1975</u>						
All Directors and Senior Officers as a group	300	3.33	9.75- 11.00		1,000	3,000
	11,850	3.33	7.00- 8.88		39,500	96,656
Options Unexercised on January 6, 1975						
Mr. Galvin	25,000	10.25*				
Mr. Battle	22,500	9.50*				
Mr. Barkwell	12,500	9.50*				
All Directors and Senior Officers as a group	81,500	9.73*				

*Average exercise price per share.

Sales Since January 1, 1969

Mr. Battle	27,900
Mr. Hefter	23,470
Mr. Barkwell	6,500
All Directors and Senior Officers as a group	169,010

During the period from January 1, 1969 to January 6, 1975 options to purchase Common Shares were granted with respect to 112,000 Shares to employees of Cigol other than the above-mentioned Directors and Senior Officers at an average exercise price per share of \$9.53.

All options presently outstanding were granted under Cigol's Key Employee Incentive Share Option Plan at a price that was not less than 90% of the closing price for the Company's Common Shares on The Toronto Stock Exchange on the last business day prior to the date of grant. All outstanding options are "market growth options", which means that, upon the exercise of an option, the holder receives, without payment, such number of shares as equals the quotient obtained by dividing (a) the amount obtained by multiplying the number of shares with respect to which the option is exercised by the difference between the market price of a Common Share of Cigol on the date the option is exercised and the exercise price, by (b) the market price of a Common Share of Cigol on the date the option is exercised. See Note 6(b) to the consolidated financial statements of Cigol appearing elsewhere in this Information Circular and Proxy Statement.

On July 31, 1973, Cigol sold at par to a number of its Senior Officers, including Messrs. Galvin, Battle, Hefter and Barkwell, Convertible Notes of Cigol (five to each Officer in most cases) in the aggregate principal amount of \$1,372,000, bearing interest at $\frac{1}{2}$ of 1% above the prime lending rate from time to time of a Canadian chartered bank. Each note is expressed to mature on July 31, 1979, but may become payable at an earlier date at the option of either the holder or of Cigol. Each note is transferable and in the hands of certain transferees may, at any time after a specified number of years (from one to five years) from the issue date of the note, be converted into Common Shares of Cigol at a conversion price (subject to certain adjustments) of \$8.62 per share, which was the closing market price of the Common Shares of Cigol on the day preceding the issue date. (During the 30-day period immediately preceding the issue date, the market price of the Common Shares of Cigol ranged from \$6.62 to \$8.75 per share.) All of the notes are presently outstanding. The aggregate principal amount of the notes sold to and held by Mr. Galvin is \$216,000; in the case of Mr. Battle, \$216,000; in the case of Mr. Hefter, \$155,000; and in the case of Mr. Barkwell \$104,000.

See "Management of N & C—Remuneration of and Transactions with Management" for information as to options held by Messrs. Battle, Bovey, Clark and Galvin to purchase Common Shares of N & C.

The following table sets forth with respect to the individuals named the annual pension benefits estimated to be payable in the event of their retirement upon reaching age 65 on the assumption that their remuneration will continue until such age at the rates in effect at December 31, 1974:

<u>Name of Individual</u>	<u>Years of Service of Individual at Age 65</u>	<u>Annual Pension Benefits</u>
Mr. Galvin	22	\$25,622
Mr. Battle	*	\$ 5,631
Mr. Hefter	28	\$22,564
Mr. Barkwell	38	\$23,028

*Effective January 1, 1974 Mr. Battle resigned as President of Cigol and became President and Chief Operating Officer of N & C after nine years participation in the Cigol pension plan. The figure for Mr. Battle represents his pension receivable under the plan at age 65.

The cost to Cigol and its subsidiaries during 1973 of all pension benefits proposed to be paid or being paid to persons who during 1973 were Directors or Senior Officers of Cigol was \$15,625. The cost to Cigol and its subsidiaries during 1974 of all pension benefits proposed to be paid or being paid to persons who during 1974 were Directors or Senior Officers of Cigol was \$18,400.

The firm of Macleod Dixon, of which Richey B. Love, Q.C. (a Director of Cigol) is a partner, received \$60,000 and \$85,000 as fees for legal services rendered to Cigol, N & C and their subsidiaries during 1973 and during the first nine months of 1974, respectively.

Transactions between Cigol and N & C

In December, 1972, Cigol borrowed \$6,000,000 from N & C and used the funds to reduce bank indebtedness bearing a higher interest rate. The loans, which were due on demand with interest which varied from 5 $\frac{7}{8}$ % to 7 $\frac{1}{2}$ %, were repaid in September, 1973.

N & C supplies certain management services to Cigol pursuant to an agreement between the two companies. Under the terms of the agreement Cigol and N & C determine in December of each year the fee payable to N & C in consideration of the services rendered during the year. The fee paid for the year ended December 31, 1973 was \$120,000.

Cigol manages the Canadian drilling and exploration program of N & C's subsidiary Greater Winnipeg pursuant to an exploration service agreement at an annual fee equal to 15% of the annual expenses incurred by the program. For the year ended December 31, 1973, Cigol's fee was \$36,395.

DESCRIPTION OF SHARE CAPITAL OF NORCEN

General

Following the proposed reorganization, the authorized capital of Norcen will consist of 1,300,000 First Preference Shares with a par value of \$25.00 each issuable in series, 4,000,000 Junior Preference Shares with a par value of \$25.00 each issuable in series, and 50,000,000 Common Shares without par value. On the basis of the shares of N & C and Cigol outstanding on January 6, 1975, following the reorganization 7,203 of the First Preference Shares of Norcen will be outstanding as \$1.06 Cumulative Redeemable First Preference Shares, Series A ("First Preference Shares, Series A"), 1,245,117 of the First Preference Shares will be outstanding as \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B ("First Preference Shares, Series B"), 1,500,000 of the Junior Preference Shares will be outstanding as \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series ("Junior Preference Shares, First Series"), and 19,392,511 Common Shares will be outstanding.

The provisions to be attached to the First Preference Shares, Series A, the First Preference Shares, Series B and the Junior Preference Shares, First Series of Norcen will be substantially the same as the provisions attaching to the \$1.06 Cumulative Redeemable Second Preference Shares, Series A, the \$1.50 Cumulative Redeemable Convertible Second Preference Shares, Series B, and the \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, respectively, of N & C.

The provisions applicable to the Common Shares of Norcen will be substantially the same as the provisions applicable to the Common Shares of N & C (except that there will be only two rather than three classes of Preference Shares) and to the Common Shares of Cigol (except for the preferences attaching to the two classes of Preference Shares). See "Description of the Reorganization—Rights of Norcen Shareholders as to differences in applicable law affecting the Common Shares of N & C.

The following is a summary of the principal provisions to be attached to the various classes and series of shares of Norcen but is subject to the actual terms of such provisions, which are contained in the amalgamation agreement between Cigol and Newco appearing as Schedule C to this Information Circular and Proxy Statement.

First Preference Shares

The First Preference Shares of Norcen to be outstanding following the reorganization will have attached thereto provisions to the following effect:

- (i) The holders of the First Preference Shares, Series A and of the First Preference Shares, Series B will be entitled to receive fixed cumulative cash dividends, as and when declared by the Board of Directors of Norcen, in priority to any dividend on the Junior Preference Shares and the Common Shares of Norcen, at the rate of \$1.06 per share per annum in the case of the First Preference Shares, Series A and \$1.50 per share per annum in the case of First Preference Shares, Series B but shall not be otherwise entitled to receive any dividends.
- (ii) The holders of the First Preference Shares will be entitled to one vote for each share held at all annual and special meetings of shareholders of Norcen, and will not have cumulative voting rights.
- (iii) Subject to the availability for this purpose of "consolidated earned surplus" (as defined) of Norcen and subject to certain other conditions, Norcen will be required in each calendar year commencing in 1975 to apply the sum of \$195,000 in the case of the First Preference Shares, Series A, and the sum of \$825,000 in the case of the First Preference Shares, Series B, to the purchase of First Preference Shares, Series A and First Preference Shares, Series B in the open market, if available at a price not exceeding \$25.00 plus costs of purchase.
- (iv) Subject to (viii) below, Norcen may redeem the First Preference Shares, Series A in whole or in part on not less than 30 days' notice at a redemption price of \$27.50 plus any accrued and unpaid dividends. Subject to (viii) below, Norcen may after August 14, 1976 redeem the First Preference Shares, Series B in whole or in part on not less than 30 days' notice at a redemption price of \$26.50 plus any accrued and unpaid dividends.
- (v) Subject to (viii) below, Norcen may purchase for cancellation all or any part of the First Preference Shares, Series A, at a price per share not exceeding \$27.50, or all or any part of the First Preference Shares, Series B at a price per share not exceeding \$26.50, plus in either case costs of purchase and any accrued and unpaid dividends.
- (vi) The First Preference Shares, Series B will be convertible up to August 15, 1977 or, in the case of shares called for redemption, up to the last business day prior to the date fixed for redemption, whichever is earlier, into Common Shares of Norcen at the rate (subject to certain adjustments) of 9 Common Shares for every 5 Series B Shares so converted. Non-voting and non-dividend-bearing scrip certificates will be issued upon such conversion in respect of fractional interests, and the Common Shares of Norcen underlying such scrip certificates will be sold after two years from the date of issue of the scrip certificates, with the proceeds of sale and any accumulated dividends being held in trust for the holders of the scrip certificates.
- (vii) In the event of the dissolution of Norcen, the holders of the First Preference Shares, Series A will be entitled to receive \$27.50 per share, and the holders of the First Preference Shares, Series B will be entitled to receive \$26.50 per share, plus in either case any accrued and unpaid dividends, before any distribution is made to the holders of the Junior Preference Shares or of the Common Shares, but shall not be otherwise entitled to any distribution on dissolution.
- (viii) Norcen may not redeem or purchase less than all of the First Preference Shares unless all dividends that have accrued on the First Preference Shares have been paid or provided for.
- (ix) Without authorization of the holders of the First Preference Shares, Series A and of the First Preference Shares, Series B, Norcen may not (with certain exceptions) redeem or purchase any Junior Preference Shares or Common Shares unless all dividends that have accrued on the First Preference Shares have been paid or provided for, or if, after giving effect thereto, the aggregate amount of capital paid up on the Junior Preference Shares and Common Shares plus the "consolidated earned surplus" (as defined) of Norcen would be less than the aggregate par value of all First Preference Shares then outstanding.

- (x) No class of shares may be created ranking in priority to or on a parity with the First Preference Shares, nor may the authorized amount of First Preference Shares be increased, without the authorization of the holders of the First Preference Shares, Series A and of the First Preference Shares, Series B. Without the authorization of the holders of the First Preference Shares, Series A and of the First Preference Shares, Series B, no additional First Preference Shares may be issued unless "consolidated net earnings" (as defined) of Norcen (or N & C with respect to the period prior to the reorganization) for any period of 12 consecutive months out of the 18 months immediately preceding the issue of the additional shares shall be at least $2\frac{1}{2}$ times the maximum annual dividend requirements on the First Preference Shares to be outstanding immediately following such issue.
- (xi) Any of the provisions attaching to the First Preference Shares, Series A, and the provisions attaching to the First Preference Shares, Series B, may be amended with the authorization of the holders of the particular series in addition to a "special resolution" of the shareholders of all classes of voting shares of Norcen confirmed by an order of the Supreme Court of Alberta.
- (xii) Any authorization required to be given by the holders of the First Preference Shares, Series A, or the First Preference Shares, Series B, may be given by the written consent of all of the holders of the particular series or by at least 75% of the votes cast at a meeting of such holders.

Junior Preference Shares

The Junior Preference Shares of Norcen to be outstanding following the reorganization will have attached thereto provisions to the following effect:

- (i) The Junior Preference Shares, First Series will rank junior to the First Preference Shares of Norcen in every respect, including payment of dividends and the distribution of assets in the event of dissolution of Norcen.
- (ii) The holders of the Junior Preference Shares, First Series will be entitled to receive fixed cumulative cash dividends, as and when declared by the Board of Directors of Norcen, in priority to any dividend on the Common Shares of Norcen, at the rate of \$1.50 per share per annum, but shall not be otherwise entitled to receive any dividends.
- (iii) The holders of the Junior Preference Shares, First Series will be entitled to one vote for each share held at all annual and special meetings of shareholders of Norcen, and will not have cumulative voting rights.
- (iv) The Junior Preference Shares, First Series will not be redeemable by Norcen prior to June 30, 1975. In addition, they will not be redeemable prior to June 30, 1977 unless the Common Shares of Norcen have traded during the period of 20 trading days ending on the fifth trading day preceding the date on which notice of the redemption is given at a weighted average price of not less than 125% of the price at which the Junior Preference Shares, First Series are then convertible into Common Shares of Norcen. Subject to the foregoing and to (viii) below, the Junior Preference Shares, First Series will be redeemable on or after June 30, 1975 in whole or in part on not less than 30 days' notice at a redemption price of \$26.25 per share if redeemed on or before June 30, 1982, \$26.00 per share if redeemed thereafter and on or before June 30, 1984, \$25.75 per share if redeemed thereafter and on or before June 30, 1986, \$25.50 per share if redeemed thereafter and on or before June 30, 1988, and \$25.25 per share if redeemed thereafter, in each case together with any accrued and unpaid dividends.
- (v) Subject to (viii) below, Norcen may purchase for cancellation all or any part of the Junior Preference Shares, First Series at a price per share not exceeding \$26.50 plus costs of purchase and any accrued and unpaid dividends.
- (vi) The Junior Preference Shares, First Series will be convertible up to June 30, 1982 or, in the case of shares called for redemption, up to the tenth day prior to the date fixed for redemption, whichever is earlier, into Common Shares of Norcen at a conversion price (subject to certain adjustments) of \$14.50 per Common Share (approximately 1.72 Common Shares for each Junior Preference Share, First Series) if on or prior to June 30, 1977, and if thereafter at a conversion price (subject to certain adjustments) of \$16.00 per Common Share (approximately 1.56 Common Shares for each Junior Preference Shares, First Series). Non-voting and non-dividend-bearing scrip certificates will be issued upon such conversion in respect of fractional interests, and the Common Shares of Norcen underlying such scrip certificates will be sold after two years from the date of issue of the scrip

certificates, with the proceeds of sale and any accumulated dividends being held in trust for the holders of the scrip certificates.

- (vii) In the event of the dissolution of Norcen, the holders of the Junior Preference Shares, First Series shall be entitled to receive, before any distribution is made to the holders of the Common Shares, \$25.00 per share plus any accrued and unpaid dividends and, if such dissolution is voluntary, a premium of \$1.25 per share if the dissolution commences prior to June 30, 1977, or, if the dissolution commences on or after such date, a premium equal to the premium payable on redemption.
- (viii) Norcen may not redeem or purchase less than all of the Junior Preference Shares unless all dividends that have accrued on the Junior Preference Shares have been paid or provided for.
- (ix) No class of shares may be created or issued ranking in priority to or on a parity with the Junior Preference Shares, First Series (other than First Preference Shares and other than subsequent series of Junior Preference Shares), nor may the authorized amount of Junior Preference Shares be increased, without the authorization of the holders of the Junior Preference Shares.
- (x) Any of the provisions attaching to the Junior Preference Shares, First Series may be amended with the authorization of the holders of such series in addition to a "special resolution" of the shareholders of all classes of voting shares of Norcen confirmed by an order of the Supreme Court of Alberta.
- (xi) Any authorization required to be given by the holders of the Junior Preference Shares or of the Junior Preference Shares, First Series may be given by the written consent of the holders of 75% of the outstanding shares of such class or series, as the case may be, or by at least 75% of the votes cast at a meeting of the particular holders.

Common Shares

Under The Companies Act of Alberta, the following provisions will be applicable to the Common Shares of Norcen to be outstanding following the reorganization:

- (i) The holders of the Common Shares of Norcen will be entitled to one vote for each Common Share held at all annual and special meetings of shareholders of Norcen, and will not have cumulative voting rights.
- (ii) In the event of the dissolution of Norcen, the holders of the Common Shares will be entitled, subject to the rights on dissolution of the holders of the First and Junior Preference Shares referred to above, and to the rights of the holders of any other shares created in the future ranking in priority on dissolution to the Common Shares, to receive on a pro rata basis all of the assets of Norcen remaining after the payment of all of its liabilities.

Transfer Agents and Registrars

The transfer agent and registrar for the First Preference Shares, Series A of Norcen will be National Trust Company, Limited at its principal offices in Toronto, Montreal, Calgary and Vancouver.

The transfer agent and registrar for the First Preference Shares, Series B of Norcen will be National Trust Company, Limited at its principal offices in Toronto, Montreal, Winnipeg, Calgary and Vancouver.

The transfer agent for the Junior Preference Shares, First Series of Norcen will be National Trust Company, Limited at its principal offices in Toronto, Montreal, Winnipeg, Calgary and Vancouver, and at the principal office of Canada Permanent Trust Company in Regina. The registrar for the Junior Preference Shares, First Series will be Montreal Trust Company at its principal offices in Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver.

The transfer agents for the Common Shares of Norcen will be National Trust Company, Limited at its principal offices in Toronto, Montreal, Winnipeg, Calgary and Vancouver, and at the principal office of Canada Permanent Trust Company in Regina, and Chemical Bank at its principal office in New York. The registrars for the Common Shares of Norcen will be Montreal Trust Company at its principal offices in Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver, and Morgan Guaranty Trust Company of New York at its principal office in New York.

Canadian and British Insurance Companies Act

In the opinion of counsel, the First Preference Shares, the Junior Preference Shares and the Common Shares of Norcen will be investments in which the Canadian and British Insurance Companies Act of Canada

states that a company registered under Part III of such Act may invest its funds without availing itself for that purpose of the provisions of subsection (4) of Section 63 of the Act.

PROPOSED INCENTIVE STOCK OPTION PLAN OF NORCEN

It is expected that the Board of Directors of Norcen will establish an Incentive Stock Option Plan in the form annexed hereto as Schedule D. Such Plan will provide for the granting of non-transferable options, for a period not in excess of five years (subject to earlier termination in the event of death or cessation of employment), to officers and other full-time employees of Norcen and its subsidiaries to acquire Common Shares of Norcen on the basis of a price that is not less than 90% of the fair market value of such shares. Fair market value will be deemed to be the mid-point between the highest and lowest prices at which the Common Shares of Norcen are traded on The Toronto Stock Exchange on the day prior to the date of grant.

Such Plan is expected to provide for the granting of options in respect of a maximum of 650,000 shares of Norcen. See "Description of the Reorganization—Employees' Stock Options" as to options to be granted to persons holding N & C options.

On the issuance of Norcen stock options no amount will be required to be included in computing the income of the recipient of the option for Canadian income tax purposes. If the holder exercises his option he will be required to include, in computing his income for Canadian income tax purposes, the difference between the value of the shares he received by virtue of exercising his option and the cost to him of acquiring the shares. Norcen is not entitled to deduct any amount as a result of the issuance of options.

EXPERTS

The consolidated financial statements of N & C, Cigol and Great Plains included in this Information Circular and Proxy Statement, except as they relate to the unaudited nine-month periods ended September 30, 1973 and September 30, 1974 and except for the unaudited pro-forma condensed financial statements, have been examined by Riddell, Stead & Co., independent chartered accountants, for the periods indicated and to the extent set forth in their reports included therewith. Such consolidated financial statements have been included herein in reliance upon such reports and upon the authority of such firm as an expert in accounting and auditing.

The reference herein to reports prepared by John T. Boyd Company, mining and geological engineers, as to Coleman's coal reserves has been included herein in reliance upon the authority of such firm as an expert in the evaluation of coal reserves.

The reference herein to a report prepared by McDaniel Consultants (1965) Ltd., oil and gas reservoir evaluators, as to Cigol's reserves of crude oil, natural gas and natural gas liquids has been included herein in reliance upon the authority of such firm as an expert in the evaluation of oil and gas reserves.

The reference herein to a report prepared by DeGolyer and MacNaughton, an oil and gas consulting firm, as to Great Plains' reserves of crude oil, natural gas and natural gas liquids has been included herein in reliance upon the authority of such firm as an expert in the evaluation of oil and gas reserves.

LEGAL OPINIONS

The legality of the securities of Norcen to be issued and outstanding as a result of the reorganization will be passed upon by Macleod Dixon, 555 Bentall Building, 444 - 7th Avenue S.W., Calgary, Alberta, T2P 0Y1. Canadian tax matters affecting N & C shareholders will be passed upon by Osler, Hoskin & Harcourt, 4 King Street West, Toronto, Ontario, M5H 1B9, and Canadian tax matters affecting Cigol shareholders will be passed upon by Macleod Dixon. United States tax matters affecting both N & C and Cigol shareholders will be passed upon by Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, New York 10005.

ADDITIONAL INFORMATION

A Registration Statement under the United States Securities Act of 1933 has been filed with the Securities and Exchange Commission, Washington, D.C., U.S.A., with respect to shares of Norcen described in this Information Circular and Proxy Statement. For further information with respect to Norcen and the shares to be issued by Norcen, reference is made to such Registration Statement and to the exhibits listed in the Registration Statement. Prior to the shareholders' meetings the Registration Statement and the exhibits listed therein will be available for inspection during normal business hours at the head office of N & C at 4600 Toronto-Dominion Centre, Toronto, Ontario, and at the registered office of Cigol at 640 - 8th Avenue S.W., Calgary, Alberta.

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OPINION OF INDEPENDENT CHARTERED ACCOUNTANTS

To The Directors of
NORTHERN AND CENTRAL GAS CORPORATION LIMITED

We have examined the consolidated balance sheet of Northern and Central Gas Corporation Limited and its subsidiaries as at December 31, 1973 and the consolidated statement of income for the five years then ended and the consolidated statements of retained earnings, contributed surplus, and changes in financial position for the three years then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

We have previously reported on the consolidated financial statements for the year ended December 31, 1973 on February 8, 1974. Our opinion then was qualified because of uncertainties as to the recovery of the company's investment in Coleman Collieries Limited. Since issuing our report the operations of Coleman have improved which, together with other factors, has enabled us to withdraw our qualification and issue the opinion in the succeeding paragraph.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the years indicated, in accordance with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the changes, with which we concur, in accounting for income taxes as explained in Note 8 and in accounting for coal operations as explained in Note 2.

Toronto, Ontario, Canada
February 8, 1974 except as to the middle
paragraph hereof and the information
contained in Notes 2 and 8 as to
which the date is November 1, 1974

RIDDELL, STEAD & Co.
Chartered Accountants

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

ASSETS

	December 31, 1973 <u>(Restated— Note 2)</u>	September 30, 1974 <u>(unaudited)</u>
CURRENT ASSETS		
Cash.....	\$ 2,746	\$ 2,890
Short-term interest bearing deposits.....	9,697	12,425
Accounts receivable.....	36,206	32,710
Unbilled gas, at selling price.....	5,295	1,985
Inventories at the lower of cost and replacement cost.....	10,015	14,268
Prepayments, advances and deposits.....	<u>2,410</u>	<u>3,430</u>
	66,369	67,708
INVESTMENTS (Note 4).....	<u>32,528</u>	<u>31,946</u>
PROPERTY, PLANT AND EQUIPMENT (Note 5).....	680,347	723,212
Accumulated depreciation and depletion.....	<u>155,579</u>	<u>169,013</u>
	524,768	554,199
DEFERRED CHARGES, at amortized cost (Note 6).....	<u>16,547</u>	<u>16,423</u>
INTANGIBLE ASSETS ARISING FROM ACQUISITIONS, at amortized cost (Note 1).....	<u>35,820</u>	<u>35,820</u>

Signed on behalf of the Board

E. C. BOVEY, Director

E. G. BATTLE, Director

\$676,032

\$706,096

The accompanying notes are an integral part of these financial statements.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

LIABILITIES

	December 31, 1973 (Restated— Note 2)	September 30, 1974 (unaudited)
CURRENT LIABILITIES (excluding demand bank loans)		
Commercial paper and unsecured income debentures (Note 7).....	\$ 2,000	\$ 15,650
Bank loans of subsidiaries (Note 7).....	6,033	1,827
Accounts payable.....	30,569	34,019
Accrued interest.....	6,299	6,894
Income and other taxes.....	1,017	2,075
Current maturities on long-term debt.....	9,947	10,987
Other.....	1,140	1,613
	<u>57,005</u>	<u>73,065</u>
DEMAND BANK LOANS (due within one year but intended to be refinanced or repaid in monthly instalments) (Note 7).....	29,684	35,996
LONG-TERM DEBT (Note 9).....	<u>318,952</u>	<u>311,341</u>
MINORITY INTERESTS IN SUBSIDIARIES (Note 1).....	55,763	58,719
DEFERRED INCOME TAXES (Note 8).....	<u>33,865</u>	<u>39,321</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 11)

Authorized

562,767 First Preference Shares \$50 each
par value, issuable in series

1,635,799 Second Preference Shares \$25 each
par value, issuable in series

4,000,000 Junior Preference Shares \$25 each
par value, issuable in series

30,445,160 Common Shares without par value

Issued

First Preference Shares

128,341 \$2.60 Cumulative First Series..... 6,422 6,417

34,218 \$2.70 Cumulative Second Series..... 1,716 1,711

Second Preference Shares

7,357 \$1.06 Cumulative Series A..... 200 184

1,265,217 \$1.50 Cumulative Convertible Series B..... 31,833 31,630

Junior Preference Shares

1,500,000 \$1.50 Cumulative Convertible First Series..... 37,500 37,500

Common Shares

13,420,227..... 78,926 78,957

RETAINED EARNINGS (Note 12)..... 24,166 31,255

180,763 187,654

\$676,032 \$706,096

The accompanying notes are an integral part of these financial statements.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974 (unaudited)
	1971	1972	1973	
BALANCE AT BEGINNING OF PERIOD				
As previously reported.....	\$ 25,484	\$30,780	\$36,622	\$43,771
Adjustments resulting from retroactive adoption of tax allocation accounting.....	(10,933)	(13,254)	(15,864)	(19,306)
Adjustment in production costs in coal operations.....	—	—	(299)	(299)
Other.....	(393)	(393)	(125)	—
As restated (Note 2).....	14,158	17,133	20,334	24,166
Add				
Net income.....	13,537	14,866	16,557	16,660
	<u>27,695</u>	<u>31,999</u>	<u>36,891</u>	<u>40,826</u>
Less				
Dividends on Preference Shares				
First Preference				
—First Series—\$2.60.....	365	348	334	250
—Second Series—\$2.70.....	101	96	94	69
Second Preference				
—Series A—\$1.06.....	195	11	9	6
—Series B—\$1.50.....	1,968	1,968	1,948	1,431
Junior Preference—\$1.50.....	—	1,181	2,250	1,688
Dividends on Common Shares (\$.60 per share annually) ..	7,914	8,046	8,048	6,038
Share acquisition costs.....	19	15	7	5
Other.....	—	—	35	84
	<u>10,562</u>	<u>11,665</u>	<u>12,725</u>	<u>9,571</u>
BALANCE AT END OF PERIOD.....	<u>\$ 17,133</u>	<u>\$20,334</u>	<u>\$24,166</u>	<u>\$31,255</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974 (unaudited)
	1971	1972	1973	
BALANCE AT BEGINNING OF PERIOD.....	\$ 3,361	\$1,909	\$ 573	—
Adjustment of investment in subsidiaries resulting from issue of additional common shares.....	1,389	71	137	—
Share capital issue expenses.....	63	1,265	436	—
	<u>1,452</u>	<u>1,336</u>	<u>573</u>	<u>—</u>
BALANCE AT END OF PERIOD.....	<u>\$ 1,909</u>	<u>\$ 573</u>	<u>\$ —</u>	<u>—</u>

The accompanying notes are an integral part of these financial statements.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	
	(Restated— Note 2)	(Restated— Note 2)	(Restated— Note 2)	(unaudited)
FUNDS DERIVED FROM				
Operations				
Income before extraordinary items.....	\$ 13,537	\$ 14,866	\$ 16,557	\$ 16,936
Charges not requiring funds				
Depreciation and depletion.....	18,018	20,010	23,181	18,838
Minority interests.....	3,742	4,172	5,843	6,132
Deferred income taxes.....	4,085	4,650	6,042	8,013
Other charges.....	2,319	2,287	2,730	2,348
Funds provided from operations.....	41,701	45,985	54,353	52,267
Issue of long-term debt.....	55,251	31,935	5,010	—
Issue of Common Shares for cash.....	33	34	20	31
Issue of Preference Shares for cash.....	—	37,500	—	—
Increase (decrease) in bank loans.....	250	(10,263)	17,706	6,312
	<u>97,235</u>	<u>105,191</u>	<u>77,089</u>	<u>58,610</u>
FUNDS APPLIED TO				
Additions to property, plant and equipment.....	61,108	49,229	43,578	48,269
Decrease (Increase) in minority interests.....	(1,679)	865	1,117	2,508
Retirement of long-term debt.....	11,088	12,277	11,445	7,611
Dividends on Common Shares.....	7,914	8,046	8,048	6,038
Dividends on Preference Shares.....	2,629	3,604	4,635	3,444
Redemption of Preference Shares.....	687	666	935	229
Financing expenses and other deferred charges.....	3,662	4,988	2,072	2,224
Increase in other investments.....	2,398	2,239	2,479	2,918
Additional investment in subsidiaries—net.....	15,084	24	1,329	5
Other items—net.....	(116)	203	259	85
	<u>102,775</u>	<u>82,141</u>	<u>75,897</u>	<u>73,331</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ (5,540)</u>	<u>\$ 23,050</u>	<u>\$ 1,192</u>	<u>\$ (14,721)</u>

CONSOLIDATED SCHEDULE OF CHANGES IN WORKING CAPITAL
(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	
				(unaudited)
INCREASE (DECREASE) IN CURRENT ASSETS				
Cash and short-term deposits.....	\$ (2,825)	\$ 3,248	\$ 958	\$ 2,872
Accounts receivable.....	1,034	3,903	6,188	(3,496)
Unbilled gas.....	100	396	(33)	(3,310)
Inventories.....	1,113	3,017	(1,693)	4,253
Prepayments, advances and deposits.....	(276)	(396)	200	1,020
	<u>(854)</u>	<u>10,168</u>	<u>5,620</u>	<u>1,339</u>
DECREASE (INCREASE) IN CURRENT LIABILITIES				
Commercial paper and unsecured income debentures...	3,225	18,350	(2,000)	\$(13,650)
Bank loans of subsidiaries.....	—	(792)	220	4,206
Accounts payable and accrued interest.....	(7,049)	(2,181)	(3,600)	(4,045)
Income and other taxes.....	(344)	(642)	1,143	(1,058)
Current maturities on long-term debt.....	(591)	(1,808)	(195)	(1,040)
Other.....	73	(45)	4	(473)
	<u>(4,686)</u>	<u>12,882</u>	<u>(4,428)</u>	<u>(16,060)</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u>\$ (5,540)</u>	<u>\$ 23,050</u>	<u>\$ 1,192</u>	<u>\$ (14,721)</u>

The accompanying notes are an integral part of these financial statements.

NORTHERN AND CENTRAL GAS CORPORATION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(tabular amounts shown in thousands of Canadian dollars)

(Information as at September 30, 1974 and for the nine-month period ended September 30, 1974 is unaudited.)

1. PRINCIPLES OF CONSOLIDATION

(a) *Subsidiaries*

The consolidated financial statements include the accounts of N & C and all its subsidiaries; all inter-company transactions have been eliminated.

(b) *Business Combinations*

The acquisition of gas utility subsidiaries by N & C for cash consideration in excess of underlying book values at dates of acquisition (all of which were acquired prior to January 1, 1969), has given rise to Intangible Assets arising from Acquisitions. In 1969 N & C discontinued amortization related to these acquisitions since, in the opinion of management, no diminution in value has occurred.

Combinations resulting from share exchange offers (Cigol and Greater Winnipeg Gas Company) have been accounted for on the basis that the consideration attributed to the Common Shares issued under the exchange offers was equal to the underlying book value of the subsidiaries' shares at dates of combination.

82% of the outstanding equity shares and certain other securities of Coleman Collieries Limited ("Coleman") were acquired for \$15,260,000 cash in August, 1971, which transaction was accounted for as a purchase. The excess, \$14,247,000, of N & C's acquisition cost over the value of the net assets recorded by Coleman at date of acquisition has been included in coal properties and will be amortized on a straight-line basis, over 28 years.

For details of recent combinations effected by Cigol see Note 1 to the consolidated financial statements of Cigol included elsewhere in this Information Circular and Proxy Statement.

(c) *Minority Interests in Subsidiaries*

Preference Shares in the amount of \$15,419,000 at September 30, 1974 and December 31, 1973 are included in minority interests.

2. CHANGES IN ACCOUNTING POLICY AND RESTATEMENT OF PRIOR YEARS

(a) *Oil and Gas Exploration and Production*

Financial statements for periods prior to 1974 have been restated from those previously reported to give effect to the adoption of tax allocation accounting as described in Note (c) to the consolidated statement of income of N & C appearing elsewhere in this Information Circular and Proxy Statement.

(b) *Coal*

Deferred mine development costs include all direct and indirect costs of coal reserves being developed in new levels after deducting therefrom the value of applicable production. Prior to 1973 such costs were being written off on the basis of coal production from applicable areas as commercial production was obtained. Following suspension and abandonment of certain mining properties in 1972 and a subsequent review of operating policies, Coleman adopted the following amortization policy in 1973:

- (i) costs of suspended and abandoned properties on a straight-line method over the remaining life of the sales contracts, and
- (ii) cost of producing properties on the unit-of-production method based on estimated recoverable underground coal reserves as determined by company engineers,

which changes had the effect of reducing consolidated income for 1973 by approximately \$1,025,000. During 1974, the company restated amortization on a basis consistent with the above method and restated 1972 production costs, which changes had the net effect of increasing the 1972 loss on coal operations by \$365,000 before minority interest.

3. SUBSIDIARIES

Sales and other revenues, N & C's share of net income (loss), and the percentage equity ownership held by N & C for each principal subsidiary, were:

	December 31, 1973			Nine Months Ended September 30, 1974		
	Sales and Other Revenues	Share of Net Income (Loss)	Ownership	Sales and Other Revenues	Share of Net Income	Ownership
Gas utilities						
Greater Winnipeg Gas Company.....	\$34,085	\$2,685	99%	\$29,487	\$2,466	99%
Gaz Métropolitain, inc.....	79,630	5,403	82%	71,886	5,742	82%
Oil and gas exploration and production						
Cigol and subsidiaries.....	58,964	6,040	61%	57,238	4,615	61%
Coal						
Coleman.....	15,395	(237)	82%	17,687	2,376	82%

4. INVESTMENTS, at cost less amounts written off

	December 31, 1973	September 30, 1974
Gas utilities		
Mortgages receivable.....	\$ 7,933	\$ 4,868
Canadian Arctic Gas Study Limited.....	1,693	2,383
Shares of Panarctic Oils Ltd.....	650	650
Other.....	176	220
	<u>10,452</u>	<u>8,121</u>
Oil and gas exploration and production		
Shares of Elf Oil Exploration and Production Canada Ltd.*.....	18,839	19,243
Shares of Panarctic Oils Ltd.....	626	704
Other shares and advances.....	2,611	2,595
Interest-bearing deposits*.....	—	1,283
	<u>22,076</u>	<u>23,825</u>
	<u>\$ 32,528</u>	<u>\$ 31,946</u>

*Reference is made to Note 2 to the consolidated financial statements of Cigol appearing elsewhere in this Information Circular and Proxy Statement.

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 1973			September 30, 1974		
	Cost	Accumulated Depreciation and Depletion	Net	Cost	Accumulated Depreciation and Depletion	Net
Gas utilities						
Coke plant.....	\$ 18,167	\$ 8,865	\$ 9,302	\$ 14,250	\$ 6,184	\$ 8,066
Gas storage.....	24,631	2,530	22,101	24,141	4,437	19,704
Gas distribution.....	356,272	47,681	308,591	356,320	50,184	306,136
Rental equipment.....	39,251	10,432	28,819	39,214	12,227	26,987
General plant.....	17,447	4,467	12,980	17,160	4,958	12,202
Construction in progress.....	488	—	488	18,576	—	18,576
Customers' and other contributions.....	(4,473)	—	(4,473)	(4,944)	—	(4,944)
	<u>451,783</u>	<u>73,975</u>	<u>377,808</u>	<u>464,717</u>	<u>77,990</u>	<u>386,727</u>
Oil and gas exploration and production						
Oil and gas properties and equipment.....	140,710	49,250	91,460	165,906	54,919	110,987
Pipelines and processing plants.....	28,105	19,822	8,283	28,305	20,644	7,661
Propane marketing equipment.....	18,533	5,413	13,120	18,803	5,959	12,844
	<u>187,348</u>	<u>74,485</u>	<u>112,863</u>	<u>213,014</u>	<u>81,522</u>	<u>131,492</u>
Coal						
Coal properties.....	26,998	2,704	24,294	29,843	4,348	25,495
Production equipment.....	14,218	4,415	9,803	15,638	5,153	10,485
	<u>41,216</u>	<u>7,119</u>	<u>34,097</u>	<u>45,481</u>	<u>9,501</u>	<u>35,980</u>
	<u>\$680,347</u>	<u>\$155,579</u>	<u>\$524,768</u>	<u>\$723,212</u>	<u>\$169,013</u>	<u>\$554,199</u>

Gas Utilities

Depreciation is provided on the straight-line method by application of rates varying from 1¼% to 25% of cost. The application of these rates has been equivalent to an annual composite rate of approximately 2¾%.

Maintenance, repairs and minor renewals are charged to maintenance expense accounts. Renewals and betterments of property (other than minor items) are charged to property, plant and equipment accounts. The original cost of property retired is removed from plant accounts and charged to accumulated depreciation, which is credited with the salvage proceeds less removal cost. Under this method, no profit or loss is recognized as to ordinary retirements of depreciable property.

Oil and Gas Exploration and Production

Reference is made to Note 3 to the consolidated financial statements of Cigol appearing elsewhere in this Information Circular and Proxy Statement.

Coal

Coal properties include land, exploration and development costs, together with the excess, \$14,247,000, of N & C's acquisition cost over the value of the net assets recorded by Coleman at date of acquisition. See Notes 1(b) and 2(b) which describe the basis on which amortization is provided on the companies' coal operations.

Production equipment is depreciated at rates varying from 5% to 30% and has been equivalent to an annual composite rate of approximately 6¾%.

6. DEFERRED CHARGES, at amortized cost

<u>Description</u>	<u>Basis or Period of Amortization</u>	<u>December 31, September 30,</u>	
		<u>1973</u>	<u>1974</u>
Gas utilities			
Long-term debt issue expense	Amortized over term of applicable issue	\$ 8,063	\$ 7,575
Contribution to customers for conversion to natural gas	3 to 20 years	1,479	1,273
Special gas costs	See note (a) below	3,041	2,813
Other gas costs	10 to 20 years	975	903
Special rental appliance expenses	13½ years	727	665
Extraordinary plant retirements	4 to 10 years	1,026	1,631
Other	2 to 5 years	726	772
		<u>16,037</u>	<u>15,632</u>
Oil and gas exploration and production			
Long-term debt issue expense	Amortized over term of applicable issue	185	159
Other	20 years	325	632
		<u>510</u>	<u>791</u>
		<u>\$ 16,547</u>	<u>\$ 16,423</u>

- (a) Commencing in 1972 the Company agreed to pay its supplier, on an interim basis, additional amounts for gas delivered in Ontario. Such payments, which terminated in 1973, were deferred in accordance with an order of the Ontario Energy Board and, commencing January 1, 1974, are being amortized over 10 years.

The costs and expenses of issuing long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The gas utilities also defer in the year incurred certain other expenses which the regulatory authorities require or permit to be recovered from future revenues; such charges are being amortized over various time periods, not in excess of 20 years.

7. SHORT-TERM BORROWINGS AND BANK LOANS

	December 31, 1973	September 30, 1974
SHORT-TERM BORROWINGS		
Bank loans of subsidiaries		
Coleman, secured on Coleman's accounts receivable.....	\$ 3,735	\$ 1,565
Cigol, amounts due within one year on long-term bank loans.....	2,298	262
	6,033	1,827
Commercial paper and unsecured income debentures.....	2,000	15,650
	<u>\$ 8,033</u>	<u>\$ 17,477</u>
BANK LOANS		
Cigol and subsidiaries secured primarily on Cigol's oil and gas properties.....	\$ 23,057	\$ 31,733
Less amounts due within one year included in current liabilities.....	2,298	262
	20,759	31,471
N & C.....	8,925	4,525
	<u>\$ 29,684</u>	<u>\$ 35,996</u>

While these bank loans are evidenced by demand notes, N & C loans are customarily repaid from the proceeds of long-term financing. Cigol and subsidiaries have informal understandings with the banks that their loans will be repaid in monthly instalments. See Note 4 to the consolidated financial statements of Cigol for further information including debt maturities.

The average interest rate on N & C's commercial paper and unsecured income debentures outstanding at September 30, 1974 was 8.8% (December 31, 1973—9.7%), on its bank loans 11.5% (December 31, 1973—9.6%), and on the subsidiaries' bank loans 11.6% (December 31, 1973—9.5%) including stand-by fees where applicable. The maximum amount of short-term borrowings outstanding at any month end during the nine months ended September 30, 1974 was \$18,775,000 (year ended December 31, 1973—\$10,776,000). The average short-term borrowings outstanding during the nine months ended September 30, 1974 was \$12,582,000 (year ended December 31, 1973—\$6,856,000).

The approximate average interest rate for the nine months ended September 30, 1974 on all bank and commercial paper borrowings was 10.2% (December 31, 1973—7.7%) based on the total interest expense (including stand-by fees) divided by the approximate average debt outstanding computed monthly. Unused lines of credit at September 30, 1974 were \$35,076,000 of which \$4,350,000 pertains to commercial paper and unsecured income debentures. Stand-by fees, which range from $\frac{1}{4}$ to $\frac{1}{2}$ %, are not payable on all lines of credit.

8. INCOME TAXES

Reference is made to Notes (c) and (d) to the consolidated statements of income of N & C and Cigol, respectively, appearing elsewhere in this Information Circular and Proxy Statement.

9. LONG-TERM DEBT

	December 31, 1973	September 30, 1974
N & C		
5½% - 8½% First Mortgage Bonds, 1974 - 1992.....	\$119,581	\$116,868
9½% Senior Debentures, 1991.....	50,000	50,000
6% Notes and Subordinated Notes, 1975 - 1987.....	7,683	7,546
5¾% - 9½% Subordinated Debentures, 1982 - 1991*.....	53,028	52,515
	<u>230,292</u>	<u>226,929</u>
Greater Winnipeg Gas Company		
5¾% - 6% First Mortgage Bonds, 1978 - 1984.....	17,950	17,538
6% Debentures, 1979.....	1,600	1,600
5½% Subordinated Debentures, 1980.....	1,025	1,025
	<u>20,575</u>	<u>20,163</u>
Gaz Métropolitain, inc.		
5½% - 7% First Mortgage Bonds, 1980 - 1990.....	29,750	28,165
6% General Mortgage Bonds, 1988 - 1989.....	10,635	10,260
5¾% Debentures, 1985.....	15,993	15,493
	<u>56,378</u>	<u>53,918</u>
Cigol and subsidiaries		
5⅞% - 9% First Mortgage Bonds, 1976 - 1993.....	12,267	11,436
6¼% Debentures, 1976.....	139	136
Other.....	4,503	4,410
	<u>16,909</u>	<u>15,982</u>
Coleman		
7½% Mortgage Loans, 1981.....	1,977	1,852
12% Debentures, 1981.....	660	660
Interest-free note, 1981.....	1,835	1,835
Equipment notes.....	355	1,407
	<u>4,827</u>	<u>5,754</u>
Other.....	183	172
	<u>329,164</u>	<u>322,918</u>
Deduct		
Long-term debt held for sinking fund purposes.....	265	590
Current maturities on long-term debt.....	9,947	10,987
	<u>10,212</u>	<u>11,577</u>
	<u>\$318,952</u>	<u>\$311,341</u>

*\$20,000,000 principal amount of 9½% debentures are repayable at the option of the holders on July 2, 1975.

Securities issued in U.S. funds are included above at their Canadian dollar equivalents at their respective dates of issue.

Long-term debt maturities and sinking fund requirements for each of the five years subsequent to December 31, 1973 and September 30, 1974 are:

	December 31, 1973	September 30, 1974
First year.....	\$ 10,212	\$ 11,577
Second year.....	12,536	13,494
Third year.....	13,984	16,530
Fourth year.....	15,851	18,141
Fifth year.....	21,039	22,148

10. COMMITMENTS AND CAPITAL PROGRAM

It is anticipated that the companies will expend in the year ended December 31, 1974 approximately \$85,000,000 on gas utility facilities, oil and gas exploration and production facilities coal properties and equipment and other requirements, of which approximately \$48,000,000 had been expended to September 30, 1974.

11. CAPITAL STOCK

(a) Changes in N & C's share capital during the three years and nine months ended September 30, 1974 were as follows:

	Preference Shares										Common Shares	
	First Preference				Second Preference				Junior Preference			
	First Series		Second Series		Series A		Series B		First Series			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
January 1, 1971...	144,000	\$7,200	39,388	\$1,969	228,075	\$5,702	1,311,975	\$32,799	—	—	13,057,406	\$73,628
Issued for cash												
Employees' Share Purchase Plan.	—	—	—	—	—	—	—	—	—	—	2,710	31
Warrants.....	—	—	—	—	—	—	—	—	—	—	215	2
Incentive Stock Option Plan....	—	—	—	—	—	—	—	—	—	—	14,995	—
Converted.....	—	—	—	—	(208,419)	(5,211)	—	—	—	—	333,470	5,211
Redeemed.....	(5,394)	(270)	(3,585)	(179)	(9,530)	(238)	—	—	—	—	—	—
December 31, 1971.	138,606	6,930	35,803	1,790	10,126	253	1,311,975	32,799	—	—	13,408,796	78,872
Issued for cash												
New issue.....	—	—	—	—	—	—	—	—	1,500,000	37,500	—	—
Employees' Share Purchase Plan.	—	—	—	—	—	—	—	—	—	—	2,379	33
Warrants.....	—	—	—	—	—	—	—	—	—	—	133	1
Incentive Stock Option Plan....	—	—	—	—	—	—	—	—	—	—	612	—
Redeemed.....	(9,345)	(467)	(835)	(42)	(1,069)	(27)	(5,235)	(130)	—	—	—	—
December 31, 1972.	129,261	6,463	34,968	1,748	9,057	226	1,306,740	32,669	1,500,000	37,500	13,411,920	78,906
Issued for cash												
Employees' Share Purchase Plan.	—	—	—	—	—	—	—	—	—	—	1,780	20
Redeemed.....	(820)	(41)	(650)	(32)	(1,070)	(26)	(33,423)	(836)	—	—	—	—
December 31, 1973.	128,441	6,422	34,318	1,716	7,987	200	1,273,317	31,833	1,500,000	37,500	13,413,700	78,926
Issued for cash												
Employees' Share Purchase Plan.	—	—	—	—	—	—	—	—	—	—	3,336	31
Incentive Stock Option Plan....	—	—	—	—	—	—	—	—	—	—	3,191	—
Redeemed.....	(100)	(5)	(100)	(5)	(630)	(16)	(8,100)	(203)	—	—	—	—
September 30, 1974	128,341	\$6,417	34,218	\$1,711	7,357	\$184	1,265,217	\$31,630	1,500,000	\$37,500	13,420,227	\$78,957

PREFERENCE SHARES

The First Preference Shares, First and Second Series, are currently redeemable at \$52.00 and \$50.50 per share, respectively, and do not presently have voting rights.

The Second Preference Shares, Series A are redeemable at \$27.50 per share and have voting rights. The Second Preference Shares, Series B (redeemable at \$26.50 per share after August 14, 1976) have voting rights and are convertible into 2,277,391 Common Shares to August 15, 1977.

The Junior Preference Shares, First Series (redeemable at \$26.25 after June 30, 1975) have voting rights and are convertible into 2,586,206 Common Shares to June 30, 1977 and thereafter into 2,343,750 Common Shares to June 30, 1982.

So long as in each case the market value does not exceed par value N & C is obligated annually to purchase on the market for cancellation 3,200 First Preference Shares, First Series, 900 First Preference Shares, Second Series, and 33,000 Second Preference Shares, Series B.

(b) Unissued Common Shares were reserved as follows:

	December 31, 1973	September 30, 1974
Under the Employees' Share Purchase Plan, of which 1,690 shares (December 31, 1973—3,578 shares) were being subscribed for at prices ranging from \$8.93 to \$11.56 per share (December 31, 1973 from \$8.44 to \$10.66 per share).....	18,566	15,230
For the exercise of warrants at prices increasing from \$13.50 to \$15.00 per share (December 31, 1973—\$12.00 to \$15.00) and expiring in 1978.....	1,981	1,981
For the exercise of warrants at \$14.00 per share and expiring in 1977.....	799,325	799,325
For Incentive Stock Option Plan (see (c) below)		
Options outstanding.....	305,000	405,500
For future grant.....	128,895	25,204

(c) OPTIONS TO PURCHASE CAPITAL STOCK

(i) Shares reserved for issue under option.

As at September 30, 1974, officers and employees held options to purchase 405,500 Common Shares of capital stock as follows:

Year Option Granted	Year of Vesting	Number of Shares	Option Price		Market Price at Date of Grant	
			Per Share	Total	Per Share	Total
1970.....	1970	12,000	\$12.375	\$ 149	\$12.375	\$ 149
1971.....	1971	54,500	15.875	865	15.875	865
1972.....	1973	34,000	11.875	404	11.875	404
1973.....	1973	33,000	10.875	359	10.875	359
1973.....	1973	152,000	9.75	1,482	9.75	1,482
1974.....	1974	120,000	12.375	1,485	12.375	1,485

Each of these options is exercisable as a market growth option. Options granted July 5, 1973 and February 21, 1974 in respect of 165,000 shares and 120,000 shares respectively are exercisable in total from September 6, 1973 and April 18, 1974 respectively when the shares were allotted by the Directors. The balance of the options are exercisable as to one-fifth on or after date of grant and cumulatively thereafter as to one-fifth on or after the next four anniversaries of the granting dates. All options expire five years from date of grant.

On the exercise of a market growth option the company issues to the optionee, who is not required to make a cash payment, a number of Common Shares which is the quotient obtained where the numerator is the excess of the market value at the date of exercise over the option price multiplied by the number of shares in respect of which the option is exercised and where the denominator is the market value per share at date of exercise. The issue price of such shares will be 1¢ per share and will be credited upon issue to Common Share capital and charged to income. The difference between the number of shares in respect of which the option is exercised and the number of shares issued under the formula will be available for the granting of future options.

- (ii) Summary of shares with respect to which options became exercisable under option agreements during the three years and seven months ended September 30, 1974:

Date at Which Options Became Exercisable	Number of Shares	Option Price		Market Price at Dates Options Became Exercisable	
		Per Share	Total	Per Share	Total
1971.....	116,340	\$11.875-16.50	\$1,475	\$ 15.75-16.875	\$1,860
1972.....	108,300	11.875-16.50	1,379	13.00-15.00	1,429
1973.....	205,600	9.75-16.50	2,154	8.75-16.50	2,038
1974.....	140,000	10.875-15.875	1,763	10.875-11.125	1,542

- (iii) Summary of shares with respect to which options were exercised under option agreements during the three years and seven months ended September 30, 1974:

Dates at Which Options Were Exercised	Number of Shares	Option Price		Market Prices at Dates Options Were Exercised	
		Per Share	Total	Per Share	Total
1971.....	59,680	\$9.75-12.375	\$712	\$13.31-16.94	\$950
1972.....	8,600	11.875	102	12.06-15.19	111
1974.....	13,000	9.75	127	12.75-13.00	169

12. DIVIDEND RESTRICTIONS

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends. Under the most restrictive of these indentures, retained earnings available for dividends at September 30, 1974 amounted to approximately \$10 million (\$9 million at December 31, 1973).

13. PENSION PLAN

The Company and its subsidiaries have various pension plans available to all permanent full-time employees. The plans, certain of which are coordinated with the Canada Pension Plan, require contribution by the participating employees and provide pension benefits at normal retirement age. The cost of the plans to the companies for the three years and seven months ended July 31, 1974 was as follows: 1971—\$792,000; 1972—\$945,000; 1973—\$1,005,000; nine months ended September 30, 1974—\$780,000.

The unfunded liabilities for past service benefits amounted to \$1,154,000 at September 30, 1974 and are being funded over a maximum period of twenty years.

14. SUBSEQUENT EVENT

By an agreement dated as of January 1, 1975 Cigol agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. Arrangements have been made to finance the purchase principally through long-term bank borrowings. See "Acquisition of Great Plains" for further details.

15. SUPPLEMENTARY INCOME STATEMENT INFORMATION

The following amounts were charged directly to costs and expenses during the three years and nine months ended September 30, 1974:

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	
Maintenance and repairs*.....	\$ 2,770	\$ 3,180	\$ 3,369	\$ 5,804
Depreciation, depletion and amortization of property, plant and equipment.....	18,018	20,010	23,181	18,838
Property taxes.....	4,827	4,833	4,526	3,691
Royalties**.....	—	—	—	—

Rents, research and development costs, and advertising costs are omitted since they are less than 1% of Revenues.

*Excluding maintenance and repairs in respect of oil and gas production facilities which amounts cannot be readily determined.

**The companies pay no royalties other than petroleum, natural gas and coal royalties which are considered to be a reduction of sales rather than an operating expense and are accounted for accordingly.

OPINION OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Directors of
CANADIAN INDUSTRIAL GAS & OIL LTD.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statement of income for the five years then ended and the consolidated statements of retained earnings, contributed surplus and changes in financial position for the three years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the periods indicated, in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, with which we concur, in accounting for income taxes as explained in Note (d) to the consolidated statement of income.

Calgary, Alberta, Canada
February 8, 1974,
except as to the information
contained in Note (d) to the
consolidated statement of
income as to which the date is
November 1, 1974.

RIDDELL, STEAD & CO.
Chartered Accountants.

CANADIAN INDUSTRIAL GAS & OIL LTD.

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

	December 31, 1973 (Restated— Note 8)	September 30, 1974 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash.....	\$ 1,096	\$ 1,058
Short-term interest bearing deposits (Note 4).....	5,204	3,200
Accounts receivable.....	12,412	12,682
Inventories of merchandise and supplies, at lower of cost or replacement cost.....	2,697	5,309
Prepaid expenses and deposits.....	878	929
	<u>22,287</u>	<u>23,178</u>
INVESTMENTS, at cost less amounts written off (Note 2).....	22,076	22,542
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3).....	193,396	218,787
Accumulated depletion and depreciation.....	75,540	82,519
	<u>117,856</u>	<u>136,268</u>
OTHER ASSETS		
Interest-bearing deposits (Note 2).....	—	1,523
Other.....	509	552
	<u>509</u>	<u>2,075</u>
	<u><u>\$162,728</u></u>	<u><u>\$184,063</u></u>
LIABILITIES		
CURRENT LIABILITIES (excluding demand bank loans)		
Accounts payable.....	\$ 8,938	\$ 8,546
Accrued interest.....	231	380
Dividend Payable.....	—	3,247
Income taxes (Note 8).....	533	1,346
Current maturities on bank loans and long-term debt (Notes 4 and 5).....	3,174	1,095
	<u>12,876</u>	<u>14,614</u>
DEMAND BANK LOANS (to be repaid in monthly instalments) (Note 4).....	20,759	31,471
LONG-TERM DEBT (Note 5).....	15,645	14,760
MINORITY INTERESTS IN SUBSIDIARIES.....	2,068	2,010
DEFERRED INCOME TAXES (Note 8).....	33,865	39,321
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10).....		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)		
Authorized		
500,000 5½% Cumulative Redeemable Convertible Voting Preferred Shares, par value \$10 each		
50,000,000 Common Shares without par value		
Issued		
21,644,128 Common Shares.....	29,283	29,283
CONTRIBUTED SURPLUS.....	173	173
RETAINED EARNINGS (Note 7).....	48,059	52,431
	<u>77,515</u>	<u>81,887</u>
Signed on behalf of the Board		
E. A. GALVIN, Director		
E. G. BATTLE, Director	<u><u>\$162,728</u></u>	<u><u>\$184,063</u></u>

The accompanying notes are an integral part of these financial statements.

CANADIAN INDUSTRIAL GAS & OIL LTD.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	(unaudited)
BALANCE AT BEGINNING OF PERIOD, as previously reported	\$47,813	\$56,538	\$66,957	\$79,927
Adjustments resulting from retroactive adoption of tax allocation accounting (Note 8)	(18,047)	(21,878)	(26,187)	(31,868)
Adjustments of prior years' income taxes of subsidiaries . . .	(646)	(646)	(431)	—
BALANCE AT BEGINNING OF PERIOD, as restated	29,120	34,014	40,339	48,059
Net income	6,058	6,411	9,915	7,619
	35,178	40,425	50,254	55,678
Dividends				
Preferred Shares of Cigol (\$.55 per share)	106	86	40	—
Common Shares of Cigol (\$.10 and \$.15 per share, respectively)	—	—	2,155	3,247
Pooled companies prior to combination	1,058	—	—	—
	1,164	86	2,195	3,247
BALANCE AT END OF PERIOD	\$34,014	\$40,339	\$48,059	\$52,431

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	(unaudited)
BALANCE AT BEGINNING OF PERIOD	\$ 956	\$ 956	\$ 956	\$ 173
Costs of proposed public financing, subsequently cancelled	—	—	783	—
BALANCE AT END OF PERIOD	\$ 956	\$ 956	\$ 173	\$ 173

The accompanying notes are an integral part of these financial statements.

CANADIAN INDUSTRIAL GAS & OIL LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974 (unaudited)
	1971 (Restated— Note 8)	1972 (Restated— Note 8)	1973 (Restated— Note 8)	
FUNDS DERIVED FROM				
Operations				
Income before extraordinary items.....	\$ 6,058	\$ 6,717	\$ 9,915	\$ 9,953
Charges not requiring funds:				
Depletion.....	3,986	4,868	5,615	4,555
Depreciation.....	3,056	3,277	3,748	2,959
Minority interests.....	161	37	68	125
Deferred income taxes.....	4,085	4,650	6,042	6,621
Other charges (credits).....	133	(73)	166	(36)
Funds generated from operations.....	17,479	19,476	25,554	24,177
Sale of producing properties and equipment thereon..	—	—	4,515	—
Sale of other fixed assets.....	643	560	679	497
Issue of Common Shares for cash.....	243	407	58	—
Issue of Common Shares for acquisition of balance of subsidiary's shares.....	950	—	—	—
Sale of investments.....	286	—	425	—
Bank loan additions (reductions)—net.....	1,128	(2,113)	9,631	10,712
Long-term debt additions.....	435	100	5,384	—
Other.....	109	35	—	—
	<u>21,273</u>	<u>18,465</u>	<u>46,246</u>	<u>35,386</u>
FUNDS APPLIED TO				
Exploration, development and acquisition of oil and gas properties.....	10,589	9,267	20,789	24,039
Plant and equipment, including that of subsidiaries purchased, net of previous investment therein....	8,449	6,816	4,298	2,321
Investment in affiliated and other companies.....	5,087	4,994	4,542	3,975
Long-term debt reductions.....	1,234	1,454	1,151	885
Dividends.....	1,164	86	2,195	3,247
Interest-bearing deposits.....	—	—	—	1,523
Distribution of capital by pooled company.....	744	—	—	—
Reduction of minority interest in subsidiary.....	165	90	53	182
Other.....	—	—	907	61
	<u>27,432</u>	<u>22,707</u>	<u>33,935</u>	<u>36,233</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u><u>\$ (6,159)</u></u>	<u><u>\$ (4,242)</u></u>	<u><u>\$12,311</u></u>	<u><u>\$ (847)</u></u>

CONSOLIDATED SCHEDULE OF CHANGES IN WORKING CAPITAL
(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974 (unaudited)
	1971	1972	1973	
INCREASE (DECREASE) IN CURRENT ASSETS				
Cash.....	\$ (582)	\$ 484	\$ (262)	\$ (38)
Short-term interest-bearing deposits.....	(4,984)	(564)	2,620	(2,004)
Accounts receivable.....	1,093	1,594	3,528	270
Inventories of merchandise and supplies.....	670	108	494	2,612
Prepaid expenses and deposits.....	104	(3)	310	51
	<u>(3,699)</u>	<u>1,619</u>	<u>6,690</u>	<u>891</u>
DECREASE (INCREASE) IN CURRENT LIABILITIES				
Accounts payable.....	(2,556)	(845)	(1,207)	392
Accrued interest.....	62	27	26	(149)
Dividends payable.....	17	4	43	(3,247)
Income taxes.....	47	69	131	(813)
Current maturities on bank loans and long-term debt.....	(30)	900	612	2,079
Due to parent company.....	—	(6,016)	6,016	—
	<u>(2,460)</u>	<u>(5,861)</u>	<u>5,621</u>	<u>(1,738)</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u><u>\$ (6,159)</u></u>	<u><u>\$ (4,242)</u></u>	<u><u>\$12,311</u></u>	<u><u>\$ (847)</u></u>

The accompanying notes are an integral part of these financial statements.

CANADIAN INDUSTRIAL GAS & OIL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

((tabular amounts shown in thousands of Canadian dollars))

(Information as at September 30, 1974 and for the nine-month period ended September 30, 1974 is unaudited.)

NOTE 1 PRINCIPLES OF CONSOLIDATION

(a) *Subsidiary Companies*

The consolidated financial statements include the accounts of Canadian Industrial Gas & Oil Ltd. ("Cigol") and all of its majority-owned subsidiaries. All such subsidiaries are wholly-owned at December 31, 1973 and September 30, 1974 with the exception of Prairie Oil Royalties Company, Ltd. and Trans-Prairie Pipelines, Ltd., in which Cigol has a 74% and 98% interest respectively. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets.

(b) *Foreign Exchange*

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date;
- (ii) Fixed assets, at the rate of exchange at the date of acquisition;
- (iii) Long-term debt payable in foreign currencies, at the rate of exchange applicable at date incurred; and
- (iv) Revenue and expenses, at the average rate of exchange for the period.

(c) *Business Combinations*

During the five years and nine months ended September 30, 1974 the following companies became subsidiaries as a result of share exchange offers made by Cigol:

- 1969 CIGOL International Ltd. (formerly Ranvik Oils Limited)
Manitou Exploration Company Limited
Trans-Prairie Pipelines, Ltd.
- 1971 CIGOL Laurentian Ltd. (formerly Laurence Oil Co. Ltd.)
Frisco Petroleums Ltd.

These business combinations have been accounted for on a pooling of interests basis, and accordingly their operating results are included in the consolidated financial statements for all of the periods shown.

In January and November of 1971 a wholly-owned subsidiary acquired the remaining 50% of the outstanding shares of Western Propane, Inc. for 100,000 Common Shares of Cigol and of Mid-West Propane Ltd. for \$45,000 cash. These acquisitions were accounted for as purchases and their income has been included in the consolidated statement of income from the effective date of such acquisitions.

NOTE 2 INVESTMENTS—SHARES IN OTHER COMPANIES

Investments in shares of other companies at December 31, 1973 and September 30, 1974 include 1,020,000 common shares (a 10% interest) and 1,860 preferred shares of Elf Oil Exploration and Production Canada Ltd. ("Elf"). On November 22, 1969, Cigol entered into an agreement to subscribe for a share interest in Elf. The consideration for the Elf shares was the commitment by Cigol to incur over a five-year period drilling and exploration expenses on mineral rights in Canada owned or controlled by Elf in an aggregate amount of \$23.5 million. The agreement contains provision under certain circumstances for the incurring of additional expenditures. A total of \$18.8 million and \$22.7 million had been incurred on drilling and exploration expenses as at December 31, 1973 and September 30, 1974 respectively. These expenditures are allowable to Cigol as deductions for income tax purposes.

During 1974 Cigol reduced the carrying value of its investment in Elf by \$3,500,000 based on a valuation determined by company engineers.

As at September 30, 1974 the remaining expenditures under the Elf commitment amounted to \$1,390,000 for which short-term deposits in the amount of \$1,283,000 were held in trust by Cigol.

Also included under this caption at December 31, 1973 and September 30, 1974 are 333,531 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of \$2,000,000 with an approximate market value of \$667,000 at September 30, 1974. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized on sale. Adoption of the equity method of accounting for this investment would not have a material effect on the consolidated financial statements.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

(a) Details

	December 31, 1973			September 30, 1974		
	Cost	Accumulated Depletion and Depreciation	Net	Cost	Accumulated Depletion and Depreciation	Net
Oil and gas properties.....	\$117,422	\$ 38,137	\$ 79,285	\$141,244	\$ 42,557	\$ 98,687
Oil and gas production equipment.....	20,376	10,874	9,502	21,299	11,914	9,385
Pipelines and processing plants.....	28,105	19,822	8,283	28,305	20,644	7,661
Propane marketing equipment.....	18,533	5,413	13,120	18,803	5,959	12,844
Gas utility facilities.....	8,960	1,294	7,666	9,136	1,445	7,691
	<u>\$193,396</u>	<u>\$ 75,540</u>	<u>\$117,856</u>	<u>\$218,787</u>	<u>\$ 82,519</u>	<u>\$136,268</u>

(b) Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs (except costs of short-term sub-leases) on a composite unit of production method based on total estimated recoverable reserves. Costs related to exploration for and the development of mining properties are capitalized and charged to earnings if the project or property is abandoned.

During 1969, depletion of \$2.1 million of a subsidiary's cost of a short-term sub-lease was provided in relation to revenue (after operating expenses) of a similar amount received therefrom. See Note (c) to the consolidated statement of income appearing elsewhere in this Information Circular and Proxy Statement.

(c) Depreciation

Depreciation of production equipment, processing plants, propane marketing equipment and gas utility facilities is provided on a straight-line basis at rates ranging from 2% to 25%; pipelines are depreciated on a diminishing balance basis at rates ranging from 6% to 11%; trucks used in propane marketing are depreciated on a diminishing balance basis at 30%.

(d) Retirements and Sales

Upon retirement or sale of major items of producing property or equipment, the asset accounts are relieved of the cost of such property together with the applicable accumulated depletion or depreciation. The difference between net book value of such items and the proceeds, if any, is charged or credited to earnings. Proceeds on sale of non-producing properties are credited to asset costs.

(e) *Maintenance and Repairs*

Maintenance and repairs are charged to earnings when incurred and betterments which extend the serviceable life of properties are capitalized.

NOTE 4 BANK LOANS

	December 31, 1973	September 30, 1974
Cigol and wholly-owned subsidiaries (see below).....	\$21,530	\$30,534
Trans-Prairie Pipelines, Ltd., secured by Series "D" First Mortgage Sinking Fund Bonds (see Note 5).....	1,527	1,200
	23,057	31,734
Current maturities included in current liabilities.....	2,298	263
	<u>\$20,759</u>	<u>\$31,471</u>

Certain loans of Cigol and wholly-owned subsidiaries from Canadian banks in the amount of \$21,150,000 at December 31, 1973 and \$30,460,000 at September 30, 1974, are evidenced by demand notes and are secured by assignments under Section 82 of the Bank Act (Canada) covering certain producing oil and gas properties together with a general assignment of accounts receivable. These loans bear interest at bank prime lending rates plus $\frac{1}{2}$ of 1% per annum. While the loans are payable on demand the companies have informal understandings with the banks that the loans will be paid in monthly instalments of \$690,000 beginning in October, 1975, plus interest.

Assignments under Section 82 of the Bank Act (Canada) and of other collateral constitute general and continuing collateral security for all liabilities of the companies from time to time to such banks including liability by way of indemnity to the banks for guarantee of demand non-interest-bearing notes pledged with governmental agencies as security for the performance of work obligations on exploration permits. See Note 10(b).

Unused lines of credit amounted to \$10,065,000 at December 31, 1973 and \$12,966,000 at September 30, 1974. Cigol pays standby fees at the rate of $\frac{1}{2}$ of 1% per annum on a major portion (\$7,685,000 at December 31, 1973; \$9,530,000 at September 30, 1974) of its unused lines of credit.

As at December 31, 1973 and September 30, 1974 short-term interest-bearing deposits in the amount of \$1,200,000 were held as compensating balances against bank loans of Trans-Prairie Pipelines, Ltd. of similar amounts. The deposits are available for use by the company without restriction and in the event the deposits are drawn the loans become payable over five years.

Bank loan maturities for each of the five years subsequent to December 31, 1973 and September 30, 1974 are as follows:

	December 31, 1973	September 30, 1974
First year.....	\$2,298	\$ 263
Second year.....	5,496	7,895
Third year.....	5,697	8,545
Fourth year.....	4,571	8,545
Fifth year.....	2,991	6,535

NOTE 5 LONG-TERM DEBT

	December 31, 1973	September 30, 1974
Cigol and wholly-owned subsidiaries		
5 $\frac{7}{8}$ % First Mortgage Sinking Fund Bonds, due February 1, 1983 (December 31, 1973—\$7,425,000 (U.S.); September 30, 1974—\$6,775,000 (U.S.)) subject to semi-annual sinking fund payments of \$325,000 (U.S.).....	\$ 7,995	\$ 7,295
Convertible Notes payable (see below).....	2,510	2,493
Advance for drilling costs—interest-free, repayable October 1, 1982...	908	908
Other.....	697	619
Trans-Prairie Pipelines, Ltd. and subsidiary		
First Mortgage Sinking Fund Bonds:		
6% Series "A" due June 1, 1982, subject to annual sinking fund payments of \$57,000.....	1,514	1,450
9% Series "B" due June 15, 1993, subject to annual sinking fund payments of \$60,000.....	2,500	2,440
6 $\frac{1}{2}$ % Series "C" due February 1, 1976, subject to annual sinking fund payments of \$250,000.....	258	250
Sinking Fund Debentures:		
6 $\frac{1}{4}$ % Series "A" due February 1, 1976, subject to annual sinking fund payments of \$80,000.....	139	137
	16,521	15,592
Current maturities included in current liabilities.....	876	832
	<u>\$15,645</u>	<u>\$14,760</u>

The convertible notes were issued to Officers and key employees of Cigol, bear interest at a bank prime lending rate plus $\frac{1}{2}$ of 1% and are convertible into Common Shares from time to time to September 2, 1979 at prices of \$8.25 and \$8.63 per share. The notes are expressed to mature on July 31, 1979 but may become payable at an earlier date at the option of either the holder or of Cigol. See Note 6(c).

Trans-Prairie Pipelines, Ltd. has authorized the creation and issue of \$3,500,000 7 $\frac{1}{2}$ % Series "D" First Mortgage Sinking Fund Bonds due March 1, 1983, all of which are held by the bank as collateral for bank loans.

Long-term debt maturities and sinking fund requirements for each of the five years subsequent to December 31, 1973 and September 30, 1974 are:

	December 31, 1973	September 30, 1974
First year.....	\$ 876	\$ 832
Second year.....	870	1,231
Third year.....	1,630	1,243
Fourth year.....	841	843
Fifth year.....	842	3,324

NOTE 6 CAPITAL STOCK

- (a) Changes in Cigol's share capital during the three years and nine months ended September 30, 1974 were as follows:

	Preferred Shares		Common Shares	
	Number of Shares	Amount	Number of Shares	Amount
Balance January 1, 1971.....	228,074	\$ 2,281	19,853,829	\$23,547
Issued in exchange for shares of (Note 1):				
Western Propane Inc.....	—	—	100,000	950
CIGOL Laurentian Ltd. (formerly Laurence Oil Co. Ltd.).....	—	—	185,000	1,805
Frisco Petroleum Ltd.....	—	—	755,000	33
Issued for cash on exercise of options.....	—	—	73,098	243
Issued on conversion of Preferred Shares into Common Shares.....	(60,458)	(605)	145,100	605
Balance December 31, 1971.....	167,616	1,676	21,112,027	27,183
Issued for cash on exercise of options.....	—	—	122,280	407
Issued on conversion of Preferred Shares into Common Shares.....	(12,653)	(126)	30,367	126
Balance December 31, 1972.....	154,963	1,550	21,264,674	27,716
Issued for cash on exercise of options.....	—	—	17,316	58
Issued on conversion of Preferred Shares into Common Shares.....	(150,891)	(1,509)	362,138	1,509
Preferred Shares redeemed.....	(4,072)	(41)	—	—
Balance December 31, 1973 and September 30, 1974...	—	\$ —	21,644,128	\$29,283

(b) Options to Purchase Capital Stock

- (i) Shares reserved for issue under option

As of September 30, 1974, officers and employees held options to purchase 163,300 common shares of Cigol's capital stock as follows:

Year Option Granted	Year of Vesting	Number of Shares	Option Price		Market Price at Date of Grant	
			Per Share	Total	Per Share	Total
1969.....	1970	119,800	\$ 9.50	\$1,138	\$ 9.87	\$1,182
1970.....	1971	7,500	11.00	83	11.37	85
1971.....	1972	6,000	9.00	54	9.25	56
1971.....	1972	25,000	10.25	245	11.25	281
1972.....	1973	5,000	8.50	43	8.62	43

Each of these options is exercisable for a period of five years commencing on the vesting date in five equal annual amounts. In the event options are not exercised in any one year, they may be exercised in the succeeding years but not later than five years from the vesting date.

The above options are exercisable as market growth options. On the exercise of the option the optionee is not required to make a cash payment and receives a number of Common Shares which is the quotient obtained where the numerator is the excess of the market value at the date of exercise over the option price multiplied by the number of shares in respect of which the option is exercised and where the denominator is the market value per share at date of exercise. The issue price of such shares will be 1¢ per share and will be credited upon issue to common share capital and charged to earnings. The difference between the number of shares in respect of which the option is exercised and the number of shares issued under the formula will be available for the granting of future options.

- (ii) Summary of shares with respect to which options became exercisable under option agreements during the three years and nine months ended September 30, 1974:

Date at Which Options Became Exercisable	Number of Shares	Option Price		Market Price at Dates Options Became Exercisable	
		Per Share	Total	Per Share	Total
1971.....	99,600	\$3.33-11.00	\$529	\$9.75-11.00	\$1,036
1972.....	41,500	\$3.33-11.00	348	\$9.62-11.25	441
1973.....	33,500	\$8.50-11.00	324	\$7.75- 9.62	292
1974.....	30,100	\$8.50-10.25	289	\$4.50-10.00	166

- (iii) Summary of shares with respect to which options were exercised under option agreements during the three years and nine months ended September 30, 1974:

Dates at Which Options Were Exercised	Number of Shares	Option Price		Market Price at Dates Options Were Exercised	
		Per Share	Total	Per Share	Total
1971.....	73,098	\$3.33	\$243	\$ 9.12-12.62	\$ 808
1972.....	122,280	3.33	407	8.75-11.38	1,277
1973.....	17,316	3.33	58	8.12-10.38	143

(c) *Shares Reserved for Issue on Conversion of Notes Payable*

As at September 30, 1974, 289,261 Common Shares were reserved for issue on conversion of notes payable. See Note 5.

NOTE 7 DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing Cigol's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at September 30, 1974 to approximately \$42 million (\$36 million at December 31, 1973).

NOTE 8 INCOME TAXES AND CHANGE IN ACCOUNTING POLICY

During 1974 the companies retroactively changed to the tax allocation method of accounting as described in Note (d) to the consolidated statement of income of Cigol and subsidiaries appearing elsewhere in this Information Circular and Proxy Statement. Financial statements for periods prior to 1974 have been restated from those previously reported to give effect to this accounting change.

NOTE 9 PENSION PLAN

Cigol and its subsidiaries have two pension plans available to all permanent full-time employees. The plans, one of which is coordinated with the Canada Pension Plan, require contributions by participating employees and provide pension benefits at normal retirement age. The cost of the plans to the companies for the three years and nine months ended September 30, 1974 was as follows: 1971—\$104,000; 1972—\$115,000; 1973—\$138,000; nine months ended September 30, 1974—\$183,000.

The unfunded liabilities for past service benefits amounted to \$348,000 at September 30, 1974 and are being funded over a maximum period of twenty years.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Reference is made to the commitment outlined in Note 2 with respect to Cigol incurring additional drilling and exploration expenditures under the terms of the Elf agreement.

- (b) As at December 31, 1973 and September 30, 1974, the companies had lodged non-interest-bearing demand notes aggregating \$2,858,000 and \$5,148,000 respectively, with governmental agencies as security for the performance of work obligations in respect of normal exploration activities. Such notes are guaranteed by banks with which the companies do business and will be released to the companies upon performance of their work obligations. The notes are not reflected in the accompanying balance sheet in that the companies only become liable for the payment of such notes if they fail to fulfill the work obligations to which the notes relate.
- (c) Claims to the extent of approximately \$3,400,000 U.S. have been filed against a wholly-owned subsidiary in connection with a pipeline explosion which occurred in late 1971. Management believes that insurance coverage is adequate to cover any and all liability which may emanate therefrom.

NOTE 11 SUBSEQUENT EVENT

By an agreement dated as of January 1, 1975 the company agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. Arrangements have been made to finance the purchase principally through long-term bank borrowings. See "Acquisition of Great Plains" for further details.

NOTE 12 SUPPLEMENTARY INCOME STATEMENT INFORMATION

The following amounts were charged directly to costs and expenses during the three years and nine months ended September 30, 1974:

	<u>Year Ended December 31,</u>			<u>Nine Months Ended September 30, 1974</u>
	<u>1971</u>	<u>1972</u>	<u>1973</u>	
Maintenance and repairs*	\$ —	\$ —	\$ —	\$ —
Depreciation, depletion and amortization of property, plant and equipment	7,042	8,145	9,363	7,514
Taxes other than income taxes*	—	—	—	—
Rents**	379	436	457	484
Royalties***	—	—	—	—
Advertising costs	44	46	50	35
Research and development costs	—	—	—	—

* The companies make no payments for repairs, maintenance and taxes except for such charges (included in operating expenses) incurred in the normal course of operating the companies' producing properties. Such charges cannot be readily determined and accordingly the amounts have not been reported.

** The amounts shown under this caption comprise office and equipment rents charged to costs and expenses. Rents paid for exploration offices are capitalized and charged to Property, Plant and Equipment. Lease rentals on producing properties (included in operating expenses) cannot readily be determined and accordingly the amounts have not been reported. Non-producing lease rentals are capitalized and charged to Property, Plant and Equipment.

*** The companies pay no royalties other than petroleum and natural gas royalties which are not considered to be an operating expense but a reduction of sales, and are accounted for accordingly.

OPINION OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Directors of
GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

We have examined the consolidated balance sheet of Great Plains Development Company of Canada, Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statement of income for the five years then ended and the consolidated statements of retained earnings, contributed surplus and changes in financial position for the three years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the periods indicated, in accordance with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the changes, with which we concur, in accounting for mineral exploration costs and income taxes as explained in Notes 2 and 5 respectively to the consolidated financial statements.

Calgary, Alberta, Canada
January 25, 1974 except as to the
information contained in Note 5 to the
consolidated financial statements as to
which the date is May 23, 1974.

RIDDELL, STEAD & CO.
Chartered Accountants

The information provided in the financial statements of Great Plains in this Information Circular and Proxy Statement, as well as "Management's Discussion and Analysis of Great Plains' Consolidated Statement of Income", has been furnished to N & C and Cigol by Great Plains for inclusion herein. The information provided in the audited consolidated financial statements of Great Plains has been included herein in reliance upon the report of Riddell, Stead & Co., independent chartered accountants, and upon the authority of such firm as an expert in accounting and auditing. N & C and Cigol are not in a position to verify the unaudited information.

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

CONSOLIDATED BALANCE SHEET

(in thousands of Canadian dollars)

	December 31, 1973 (Restated— Note 5)	September 30, 1974 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash.....	\$ 253	\$ 14
Short-term interest bearing investments, at cost, which approximates market.....	28,953	8,620
Accounts receivable.....	3,866	6,127
Inventories, at lower of cost or realizable value.....	254	912
	<u>33,326</u>	<u>15,673</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2).....	107,916	113,506
Accumulated depletion and depreciation.....	35,132	38,425
	<u>72,784</u>	<u>75,081</u>
OTHER ASSETS.....	865	235
	<u>\$106,975</u>	<u>\$ 90,989</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable.....	\$ 2,829	\$ 5,739
Accrued interest.....	623	98
Due to parent company.....	—	7,000
Dividend payable.....	1,622	—
Income taxes (Note 5).....	250	3,671
	<u>5,324</u>	<u>16,508</u>
LONG-TERM DEBT (Note 3).....	32,852	2,430
DEFERRED INCOME TAXES (Note 5).....	19,464	19,580
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 4)		
Authorized		
6,000,000 shares of \$1 par value		
Issued		
3,244,864 shares (September 30, 1974—3,245,864).....	3,245	3,246
CONTRIBUTED SURPLUS.....	25,230	25,258
RETAINED EARNINGS.....	20,860	23,967
	<u>49,335</u>	<u>52,471</u>
	<u>\$106,975</u>	<u>\$ 90,989</u>

The accompanying notes are an integral part of these financial statements.

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	(Unaudited)
BALANCE AT BEGINNING OF PERIOD, as previously reported . . .	\$24,249	\$27,342	\$30,546	\$32,610
Adjustment to give retroactive effect to changes in accounting policies (Notes 2 and 5)	(10,332)	(11,765)	(13,149)	(11,750)
BALANCE AT BEGINNING OF PERIOD, as restated	13,917	15,577	17,397	20,860
Net income	2,941	3,117	5,085	3,107
	16,858	18,694	22,482	23,967
Dividends	1,281	1,297	1,622	—
BALANCE AT END OF PERIOD	<u>\$15,577</u>	<u>\$17,397</u>	<u>\$20,860</u>	<u>\$23,967</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30, 1974
	1971	1972	1973	(Unaudited)
BALANCE AT BEGINNING OF PERIOD	\$24,582	\$24,625	\$25,189	\$25,230
Premium on issue of capital stock	43	564	41	28
BALANCE AT END OF PERIOD	<u>\$24,625</u>	<u>\$25,189</u>	<u>\$25,230</u>	<u>\$25,258</u>

The accompanying notes are an integral part of these financial statements.

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30,
	1971	1972	1973	1974
	(Restated- Notes 2 & 5)	(Restated- Notes 2 & 5)	(Restated- Note 5)	(Unaudited)
FUNDS DERIVED FROM				
Operations				
Income before extraordinary item.....	\$ 2,941	\$ 3,117	\$ 5,085	\$ 5,015
Charges not requiring funds:				
Depletion.....	2,409	2,624	3,337	2,605
Depreciation.....	597	661	931	688
Deferred income taxes.....	1,517	1,620	2,271	174
Other charges.....	—	—	32	20
Funds generated from operations.....	7,464	8,022	11,656	8,502
Sale of properties.....	119	1,467	93	1,929
Issuance of capital stock.....	47	604	44	29
Long-term debt additions.....	—	—	29,353	—
Other.....	—	—	187	144
	<u>7,630</u>	<u>10,093</u>	<u>41,333</u>	<u>10,604</u>
FUNDS APPLIED TO				
Exploration, development and acquisition of oil and gas properties.....	9,376	3,758	10,597	6,044
Plant and equipment.....	1,983	2,374	2,313	1,475
Long-term debt reductions.....	—	32	476	30,422
Dividends.....	1,281	1,297	1,622	—
Premium on redemption of debentures.....	—	—	—	1,500
Other.....	29	177	—	—
	<u>12,669</u>	<u>7,638</u>	<u>15,008</u>	<u>39,441</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u><u>\$ (5,039)</u></u>	<u><u>\$ 2,455</u></u>	<u><u>\$26,325</u></u>	<u><u>\$(28,837)</u></u>

CONSOLIDATED SCHEDULE OF CHANGES IN WORKING CAPITAL

(in thousands of Canadian dollars)

	Year Ended December 31,			Nine Months Ended September 30,
	1971	1972	1973	1974
				(Unaudited)
INCREASE (DECREASE) IN CURRENT ASSETS				
Cash.....	\$ 6	\$ 102	\$ 54	\$ (239)
Short-term interest bearing investments.....	(1,000)	(4,746)	25,933	(20,333)
Accounts receivable.....	(708)	(56)	580	2,261
Inventories.....	(116)	24	90	658
	<u>(1,818)</u>	<u>(4,676)</u>	<u>26,657</u>	<u>(17,653)</u>
DECREASE (INCREASE) IN CURRENT LIABILITIES				
Accounts payable and accrued interest.....	(2,430)	1,652	243	(2,385)
Dividend payable.....	(2)	(16)	(325)	1,622
Income taxes.....	—	—	(250)	(3,421)
Due to parent company.....	(789)	5,495	—	(7,000)
	<u>(3,221)</u>	<u>7,131</u>	<u>(332)</u>	<u>(11,184)</u>
INCREASE (DECREASE) IN WORKING CAPITAL.....	<u><u>\$ (5,039)</u></u>	<u><u>\$ 2,455</u></u>	<u><u>\$26,325</u></u>	<u><u>\$(28,837)</u></u>

The accompanying notes are an integral part of these financial statements.

GREAT PLAINS DEVELOPMENT COMPANY OF CANADA, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts shown in thousands of Canadian dollars)

(Information as at September 30, 1974 and for the nine-month period ended September 30, 1974 is unaudited.)

NOTE 1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Great Plains Development Company of Canada, Ltd. and all of its subsidiaries. All such subsidiaries are wholly-owned at December 31, 1973 and September 30, 1974. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets. Reference is made to Note 2 (b) below.

NOTE 2 PROPERTY, PLANT AND EQUIPMENT

(a) Details

	December 31, 1973			September 30, 1974		
	Cost	Accumulated Depletion and Depreciation	Net	Cost	Accumulated Depletion and Depreciation	Net
Oil and gas properties.....	\$ 87,530	\$29,818	\$57,712	\$ 91,621	\$32,423	\$59,198
Oil and gas production equipment....	14,661	3,825	10,836	15,942	4,380	11,562
Processing plants.....	5,725	1,489	4,236	5,943	1,622	4,321
	<u>\$107,916</u>	<u>\$35,132</u>	<u>\$72,784</u>	<u>\$113,506</u>	<u>\$38,425</u>	<u>\$75,081</u>

(b) Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated proved developed reserves.

In 1973 the companies have adopted, with retroactive effect, the policy of charging all mineral exploration expenditures to earnings as incurred. This change had the effect of reducing net income as reflected in Note (b) to the consolidated statement of income of Great Plains and subsidiaries appearing elsewhere in this Information Circular and Proxy Statement. Comparative figures for the reporting period have been restated to reflect this change in accounting policy. Previously, the companies followed the policy of capitalizing all mineral exploration costs and amortizing such costs together with all other exploration and development costs on the composite unit of production method.

(c) Depreciation

Plant, production and other equipment are depreciated on the same basis as (b) above.

(d) Retirements and Sales

Upon retirement or sale of major items of producing property or equipment, the asset accounts are relieved of the cost of such property together with the applicable accumulated depletion or depreciation. The difference between net book value of such items and the proceeds, if any, is charged or credited to earnings. Proceeds on sale of non-producing properties are credited to asset costs.

(e) Maintenance and Repairs

Maintenance and repairs are charged to earnings when incurred and betterments which extend the serviceable life of properties are capitalized.

NOTE 3 LONG-TERM DEBT

	December 31, 1973	September 30, 1974
5% Convertible Subordinated Debentures, due February 1, 1993.....	\$30,000	\$ —
Interest free loan from gas purchaser.....	2,852	2,430
	<u>\$32,852</u>	<u>\$2,430</u>

As at December 31, 1973 the Debentures were redeemable through the operation of a sinking fund commencing February 1, 1983. The company had the right to call the issue in whole or in part at anytime after February 1, 1978 and could do so earlier if the weighted average price at which the shares traded for a specified period was at least 133⅓ per cent (reducing to 120 per cent on February 1, 1975) of the conversion price. The Debentures were convertible into capital stock of the company at a conversion rate equivalent to \$44 per share.

Debenture issue costs were being amortized over the term of the Debentures.

On August 21, 1974 and pursuant to the consent of the debenture holders, the Company redeemed the Debentures at a price equal to 105% of the principal amount thereof. The premium of \$1,500,000 paid upon redemption, together with the related unamortized debenture issue costs of \$595,000 were charged to income as an extraordinary item.

NOTE 4 CAPITAL STOCK

(a) Changes in Great Plains' share capital during the three years and nine months ended September 30, 1974 were as follows:

	Common Shares	
	Number of Shares	Amount
Balance January 1, 1971.....	3,197,914	\$3,198
Issued for cash on exercise of options.....	3,750	4
Balance December 31, 1971.....	3,201,664	3,202
Issued for cash on exercise of options.....	40,200	40
Balance December 31, 1972.....	3,241,864	3,242
Issued for cash on exercise of options.....	3,000	3
Balance December 31, 1973.....	3,244,864	3,245
Issued for cash on exercise of options.....	1,000	1
Balance September 30, 1974.....	3,245,864	\$3,246

(b) Options to purchase capital stock

(i) As of December 31, 1973, there were 7,000 unoptioned shares of the capital stock of the Company reserved for the granting of options under an Incentive Share Option Plan approved by the Directors on November 30, 1962. There were no such unoptioned shares or any other options to purchase capital stock of the Company outstanding at September 30, 1974.

(ii) Summary of shares with respect to which options became exercisable under the Incentive Share Option Plan during the three years and nine months ended September 30, 1974:

Date at Which Options Became Exercisable	Number of Shares	Option Price		Market Price at Dates Options Became Exercisable	
		Per Share	Total	Per Share	Total
1971.....	13,375	\$ 9.90-\$23.85	\$199	\$29.00-\$34.875	\$457
1972.....	12,000	14.40- 23.85	183	30.75- 33.75	402
1973.....	7,000	23.85- 29.70	202	29.50- 34.38	236
1974.....	6,750	29.03- 29.70	200	28.88- 30.00	202

(iii) Summary of shares with respect to which options were exercised under the Incentive Share Option Plan during the three years and nine months ended September 30, 1974:

Dates at Which Options Were Exercised	Number of Shares	Option Price		Market Price at Dates Options Were Exercised	
		Per Share	Total	Per Share	Total
1971.....	3,750	\$9.90-\$16.43	\$ 47	\$28.50-\$34.50	\$ 116
1972.....	40,200	9.90- 23.85	604	29.00- 35.00	1,278
1973.....	3,000	14.40	43	35.00	105
1974.....	1,000	29.70	30	36.25	36

(iv) During the three years and nine months ended September 30, 1974 the consideration received for such shares issued under the Incentive Share Option Plan was credited to capital stock and contributed surplus as follows:

Year	Number of Shares Issued	Consideration Credited to		Total
		Capital Stock	Contributed Surplus	
1971.....	3,750	\$ 4	\$ 43	\$ 47
1972.....	40,200	40	564	604
1973.....	3,000	3	41	44
1974.....	1,000	1	28	29

NOTE 5 INCOME TAXES AND CHANGE IN ACCOUNTING POLICY

During 1974 the companies retroactively changed to the tax allocation method of accounting as described in Note (c) to the consolidated statement of income of Great Plains appearing elsewhere in this Information Circular and Proxy Statement. Financial statements for periods prior to 1974 have been restated from those previously reported to give effect to this accounting change.

NOTE 6 PENSION PLAN

Great Plains has a pension plan available to all permanent full-time employees. The plan, which is coordinated with the Canada Pension Plan, requires contributions by participating employees and provides pension benefits at normal retirement age. The cost of the plan for the three years and nine months ended September 30, 1974 was as follows: 1971—\$47,000; 1972—\$66,000; 1973—\$65,000; nine months ended September 30, 1974—\$62,000.

Effective January 1, 1973, Great Plains amended the plan and past service benefit costs amounting to \$445,000 were paid in full during the year. \$272,000 and \$173,000 were charged to earnings and property plant and equipment respectively in accordance with the company's accounting policy.

NOTE 7 COMMITMENTS AND CONTINGENT LIABILITIES

(a) As at December 31, 1973 and September 30, 1974, the companies had lodged non-interest-bearing demand notes aggregating \$628,000 and \$282,000, respectively, with governmental agencies as security for the performance of work obligations in respect of normal exploration activities. Such notes are guaranteed by banks with which the companies do business and will be released to the companies upon performance of their work obligations. The notes are not reflected in the accompanying balance sheet in that the companies only become liable for the payment of such notes if they fail to fulfill the work obligations to which the notes relate.

(b) Great Plains has agreed to make payments to essentially all of its employees as of July 12, 1974 if their employment with the company terminates on or before July 12, 1975. In the event that all such employees so terminate, the maximum amount payable as at September 30, 1974 would approximate \$1,200,000. Subsequent to September 30, 1974 Great Plains further agreed that such amount would be paid in two equal instalments on July 31, 1975 and July 31, 1976 to those employees who are still in the employ of the company on those dates.

NOTE 8 SUPPLEMENTARY INCOME STATEMENT INFORMATION

The following amounts were charged directly to expense during the three years and nine months ended September 30, 1974:

	Year Ended December 31,			Nine Months Ended September 30,
	1971	1972	1973	1974
Maintenance and repairs*	\$ —	\$ 974	\$1,268	\$1,065
Depreciation, depletion and amortization of property, plant and equipment	3,006	3,285	4,268	3,293
Taxes other than income taxes*	—	222	295	248
Royalties**	—	—	—	—
Rents***	—	—	—	—

*The companies make no payments for repairs, maintenance and taxes except for such charges (included in operating expenses) incurred in the normal course of operating the companies' producing properties. Such charges for 1971 could not be readily determined and accordingly the amounts were not reported. The amounts shown under these captions reflect estimates by the company.

**The companies pay no royalties other than petroleum and natural gas royalties which are not considered to be an operating expense but a reduction of sales, and are accounted for accordingly. Rents, research and development costs and advertising costs are omitted since they are less than 1% of revenues.

***Lease rentals on producing properties (included in operating expenses) cannot readily be determined and accordingly the amounts have not been reported. Non-producing lease rentals are capitalized and charged to Property, Plant and Equipment.

SCHEDULE A

SCHEME OF ARRANGEMENT DATED DECEMBER 11, 1974 BY NORTHERN AND CENTRAL GAS CORPORATION LIMITED

ARTICLE I

Interpretation

In this Scheme of Arrangement, unless the context otherwise requires the following terms shall have the meanings specified:

- (i) "Arrangement" means the arrangement pursuant to Section 193 of The Business Corporations Act of Ontario provided for by this Scheme of Arrangement;
- (ii) "Arrangement Agreement" means the agreement to be made between N & C and Newco in substantially the form annexed hereto as Exhibit I;
- (iii) "Cigol" means Canadian Industrial Gas & Oil Ltd., a body corporate organized under the laws of the Province of Alberta with its registered office in the City of Calgary;
- (iv) "Coleman" means Coleman Collieries Limited, a body corporate organized under the laws of the Province of Alberta with its registered office in the Town of Coleman;
- (v) "N & C" means Northern and Central Gas Corporation Limited, a body corporate organized under the laws of the Province of Ontario with its head office in the Municipality of Metropolitan Toronto; and
- (vi) "Newco" means Newco Ltd., a body corporate organized under the laws of the Province of Alberta with its registered office in the City of Calgary.

ARTICLE II

Arrangement Agreement

The proper officers of N & C shall forthwith enter into the Arrangement Agreement on behalf of N & C in order to implement the terms of the Arrangement.

ARTICLE III

Terms of the Arrangement

Upon the Arrangement becoming effective:

- (i) N & C shall complete the sale to Newco of certain securities of Cigol and Coleman owned by N & C as provided for in the Arrangement Agreement; and
- (ii) certain of the outstanding securities of N & C shall be exchanged for securities of Newco as provided for in the Arrangement Agreement.

ARTICLE IV

Conditions of the Arrangement

The Arrangement shall not become effective unless and until each of the following conditions has been satisfied:

- (i) the Arrangement shall have been agreed to and adopted, with or without variation, by the holders of the Second Preference Shares, Junior Preference Shares and Common Shares of N & C at meetings duly called and held for the purpose of considering the same;
- (ii) the Supreme Court of Ontario shall have made an order approving the Arrangement without imposing any term or condition which, in the opinion of the Directors of N & C, would be unduly detrimental to the interests of N & C or its shareholders, and the time limited for any appeal from such order shall have expired without an appeal having been taken or, if any appeal is taken, such appeal shall have been finally disposed of upholding the order;

(iii) the Lieutenant-Governor in Council of Ontario shall have given its permission, pursuant to the provisions of The Ontario Energy Board Act of Ontario, to the above-mentioned exchange under the Arrangement of N & C securities for Newco securities without imposing any term or condition which, in the opinion of the Directors of N & C, would be unduly detrimental to the interests of N & C or its shareholders;

(iv) the Public Utilities Board of Alberta shall have authorized, pursuant to the provisions of The Gas Utilities Act of Alberta, the above-mentioned sale to Newco under the Arrangement of securities of Cigol without imposing any term or condition which, in the opinion of the Directors of N & C, would be unduly detrimental to the interests of N & C or its shareholders;

(v) N & C shall have received rulings from tax authorities or legal opinions as to the Canadian tax consequences of the Arrangement in form satisfactory to the Directors of N & C;

(vi) the holders of the outstanding First Mortgage and Collateral Trust Bonds of N & C shall have consented to the above-mentioned sale to Newco of Cigol and Coleman securities in accordance with the provisions in that regard of the trust indenture pursuant to which such Bonds have been issued; and

(vii) in the opinion of the Directors of N & C, Cigol and Newco shall be in a position (subject only to the filing by N & C with the Minister of Consumer and Commercial Relations of Ontario of the material required to be filed in order that the Arrangement may become effective) to file with the Registrar of Companies of Alberta all final court orders and all such other material as may be required to be filed to enable a certificate of amalgamation to issue amalgamating Cigol and Newco in accordance with the provisions of an agreement to be made between Cigol and Newco in substantially the form annexed hereto as Exhibit II.

The issuance of a certificate of the Minister of Consumer and Commercial Relations of Ontario bringing the Arrangement into effect shall be deemed to be conclusive proof as to the satisfaction of such conditions.

ARTICLE V

Modification of the Arrangement

N & C may, by resolution of its Directors either before or after the Arrangement has been agreed to and adopted by shareholders as contemplated by clause (i) of Article IV hereof, assent to any modification or alteration of the Arrangement which the Supreme Court of Ontario, the Lieutenant-Governor in Council of Ontario or the Public Utilities Board of Alberta may require.

ARTICLE VI

Effective Date of the Arrangement

The Directors of N & C shall take all such steps as may be necessary in order that the Arrangement shall become effective on the fifth business day following the day on which the last of the conditions contained in Article IV hereof to be satisfied shall have been satisfied.

EXHIBIT I TO SCHEDULE A

[See Schedule B to this Information Circular and Proxy Statement.]

EXHIBIT II TO SCHEDULE A

[See Schedule C to this Information Circular and Proxy Statement.]

SCHEDULE B

This ARRANGEMENT AGREEMENT is made as of the 11th day of December, 1974,

BETWEEN:

NORTHERN AND CENTRAL GAS CORPORATION LIMITED, a body corporate organized under the laws of the Province of Ontario with its head office in the Municipality of Metropolitan Toronto, (hereinafter called "N & C")

OF THE FIRST PART

and

NEWCO LTD., a body corporate organized under the laws of the Province of Alberta with its registered office in the City of Calgary, (hereinafter called "Newco")

OF THE SECOND PART.

WHEREAS N & C proposes to make an arrangement (hereinafter referred to as the "Arrangement") pursuant to Section 193 of The Business Corporations Act of Ontario;

AND WHEREAS the Arrangement will become effective upon the date set forth in a certificate to be issued by the Minister of Consumer and Commercial Relations of Ontario pursuant to Section 195 of The Business Corporations Act of Ontario;

AND WHEREAS the parties hereto desire to enter into this Agreement for the purpose of implementing the terms of the Arrangement;

AND WHEREAS N & C is authorized to issue 562,747 First Preference Shares with a par value of \$50 each issuable in series, 1,616,845 Second Preference Shares with a par value of \$25 each issuable in series, 4,000,000 Junior Preference Shares with a par value of \$25 each issuable in series, and 30,445,160 Common Shares without par value issuable for a consideration not exceeding in the aggregate the sum of \$80,000,000, of which 128,321 First Preference Shares are outstanding as \$2.60 Cumulative Redeemable First Preference Shares, First Series, 34,218 First Preference Shares are outstanding as \$2.70 Cumulative Redeemable First Preference Shares, Second Series, 7,203 Second Preference Shares are outstanding as \$1.06 Cumulative Redeemable Second Preference Shares, Series A, 1,246,417 Second Preference Shares are outstanding as \$1.50 Cumulative Redeemable Convertible Second Preference Shares, Series B, 1,500,000 Junior Preference Shares are outstanding as \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, and 13,420,392 Common Shares are outstanding, all having been issued as fully paid and non-assessable;

AND WHEREAS Newco is authorized to issue 20,000 Common Shares without par value issuable for a price or consideration not exceeding in the aggregate the sum of \$20,000, of which three Common Shares are outstanding, having been issued as fully paid and non-assessable;

NOW THEREFORE THIS AGREEMENT WITNESSETH that, in consideration of the premises and of the mutual covenants hereinafter contained, the parties hereto agree as follows:

1. Subject to the Arrangement becoming effective, N & C shall sell to Newco and Newco shall purchase from N & C as of the time at which the Arrangement shall become effective (hereinafter called the "Effective Time"), at a price determined in accordance with paragraph 2 hereof, the following securities of Canadian Industrial Gas & Oil Ltd. (hereinafter called "Cigol") and of Coleman Collieries Limited (hereinafter called "Coleman") owned by N & C:

13,112,529 Common Shares without par value of Cigol;

184,630 Class A Shares with a par value of \$1.00 each of Coleman;

729,007 Class B Shares with a par value of \$1.00 each of Coleman;

2,580,357 6% Redeemable Convertible Preferred Shares, First Series of Coleman;

Warrants expiring March 31, 1976 for the purchase of 258,034 Class B Shares of Coleman at a price of \$10 per share;

12% Debenture of Coleman due January 1, 1981 in the principal amount of \$320,105;

9½% Debentures of Coleman due 1974 to 1978 in the principal amount of \$5,427,000; and

8½% Debenture of Coleman due 1974 to 1977 in the principal amount of \$2,350,000;

(hereinafter collectively called the "Securities").

In the event that, at the Effective Time, the principal amount of any of the above-mentioned Debentures of Coleman has been reduced, the price of such Debenture determined in accordance with paragraph 2 hereof shall be reduced accordingly.

2. Subject to the following provisions of this paragraph, the purchase price of the Securities shall be an amount equal to the fair market value of the Securities at the date of this Agreement as established in good faith by the parties hereto. Such fair market value shall be established, (i) in the case of the Common Shares of Cigol, by taking the weighted average sales price of such shares as they trade on The Toronto Stock Exchange during the eight consecutive trading days commencing on the third trading day following the date of this Agreement, provided that, if on any of the trading days involved in the calculation no Common Shares of Cigol are traded on The Toronto Stock Exchange, the eight-day period shall be extended by an additional day or days so that the length of the period in respect of which the weighted average sales price is calculated will be eight trading days, and (ii) in the case of the shares and other securities of Coleman, by such method as is, in the opinion of the parties hereto, reasonable in the circumstances. In the event that the value of the Securities as finally determined for Canadian tax purposes shall be an amount other than the purchase price of the Securities determined as above, the purchase price shall thereupon be adjusted to the value determined for tax purposes. Each of the parties hereto hereby agrees to comply with the conditions set forth in paragraph 1 of Interpretation Bulletin IT-169 of the Department of National Revenue or the corresponding provisions of any successor Interpretation Bulletin.

3. Newco shall satisfy the purchase price of the Securities by issuing to N & C at the Effective Time a note for the amount of such price in substantially the form annexed hereto as an exhibit. Prior to notice requiring payment being given, such note shall bear interest at such annual rate as, when applied to the stated principal amount of the note, will result in the payment of an annual interest charge of approximately \$6,300,000. In the event that the price of the Securities is adjusted by reason of the final determination of the value of the Securities for Canadian tax purposes as contemplated by paragraph 2 hereof, then the stated principal amount of the note and the stated interest rate shall thereupon be adjusted accordingly.

4. N & C hereby represents and warrants to Newco that N & C will be at the Effective Time the beneficial owner of the Securities free from any lien, charge or encumbrance.

5. Immediately prior to the Effective Time, Newco shall increase its authorized share capital so that it will consist of (i) 1,253,620 First Preference Shares, of which 7,203 shares will be authorized for issuance as \$1.06 Cumulative Redeemable First Preference Shares, Series A and 1,246,417 shares will be authorized for issuance as \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B, (ii) 1,500,000 Junior Preference Shares, all of which will be authorized for issuance as \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, and (iii) 13,500,000 Common Shares without par value issuable for a price or consideration not exceeding in the aggregate the sum of \$80,000,000.

In the event that at the Effective Time the fair market value of the \$1.06 Cumulative Redeemable Second Preference Shares, Series A of N & C is, in the opinion of the parties hereto, less than \$25.00, the par value of the \$1.06 Cumulative Redeemable First Preference Shares, Series A of Newco shall be an amount equal to such fair market value or, if such fair market value is not an even dollar amount, the next lowest amount that is an even dollar amount; otherwise the par value of the \$1.06 Cumulative Redeemable First Preference Shares, Series A of Newco shall be \$25.00. In the event that at the Effective Time the fair market value of the \$1.50 Cumulative Redeemable Convertible Second Preference Shares, Series B of N & C is, in the opinion of the parties hereto, less than \$25.00, the par value of the \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B of Newco shall be an amount equal to such fair market value or, if such fair market value is not an even dollar amount, the next lowest amount that is an even dollar amount; otherwise the par value of the \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B of Newco shall be \$25.00. In the event that at the Effective Time the fair market value of the \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series of N & C is, in the opinion of the parties hereto, less than \$25.00, the par value of the \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series of Newco shall be an amount equal to such fair market value or, if such fair market value is not an even dollar amount, the next lowest amount that is an even dollar amount; otherwise the par value of the \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series of Newco shall be \$25.00.

6. Subject to the Arrangement becoming effective, each holder of a \$1.06 Cumulative Redeemable Second Preference Share, Series A, \$1.50 Cumulative Redeemable Convertible Second Preference Share, Series B, \$1.50 Cumulative Redeemable Convertible Junior Preference Share, First Series, or Common Share of N & C shall be deemed to have been issued as of the Effective Time a fully-paid and non-assessable share of the corresponding series or class of shares of Newco in exchange for each such share of N & C as follows:

<u>Newco Shares to be Issued</u>	<u>N & C Shares to be Exchanged</u>
1 \$1.06 Cumulative Redeemable First Preference Share, Series A	1 \$1.06 Cumulative Redeemable Second Preference Share, Series A
1 \$1.50 Cumulative Redeemable Convertible First Preference Share, Series B	1 \$1.50 Cumulative Redeemable Convertible Second Preference Share, Series B
1 \$1.50 Cumulative Redeemable Convertible Junior Preference Share, First Series	1 \$1.50 Cumulative Redeemable Convertible Junior Preference Share, First Series
1 Common Share	1 Common Share

Each holder of a scrip certificate evidencing the right to receive a certificate for Common Shares of N & C upon surrendering such scrip certificate together with other scrip certificates evidencing similar rights aggregating a whole number of shares, shall be deemed to have been issued as of the Effective Time, in exchange for such N & C scrip certificate, a scrip certificate evidencing an equivalent right in respect of Common Shares of Newco.

7. N & C and Newco may, by resolution of their respective Directors, either before or after the Arrangement has been agreed to and adopted by shareholders as contemplated by clause (i) of Article IV of the scheme setting forth the Arrangement, assent to any modification or alteration of this Agreement which the Supreme Court of Ontario, the Lieutenant-Governor in Council of Ontario or the Public Utilities Board of Alberta may require.

8. Time shall be of the essence of this Agreement.

IN WITNESS WHEREOF this Agreement has been duly executed by the parties hereto under their respective corporate seals as witnessed by the signatures of their respective proper officers in that behalf.

NORTHERN AND CENTRAL GAS CORPORATION
LIMITED

per: "Edmund C. Bovey"
Chairman of the Board and
Chief Executive Officer

(corporate seal)

per: "Edward G. Battle"
President

NEWCO LTD.

per: "Edmund C. Bovey"
President

(corporate seal)

per: "Edward G. Battle"
Director

EXHIBIT TO SCHEDULE B

NEWCO LTD.

§ Demand Subordinated Note

1. For value received, Newco Ltd. (the "Company") hereby promises to pay to Northern and Central Gas Corporation Limited ("Northern and Central") the principal sum of \$ _____ in lawful money of Canada at the main branch of the Canadian Imperial Bank of Commerce in the City of Toronto on such date as Northern and Central in its complete discretion may require by notice in writing given to the Company at least sixty days prior to the date on which payment is required to be made, and to pay interest on the said principal amount or on the balance thereof from time to time remaining unpaid in like money and at the same place at the rate of ____ % per annum from the date hereof until notice requiring payment of the principal hereof shall have been given by Northern and Central to the Company, and thereafter at a rate equal to the prime domestic corporate lending rate of the Canadian Imperial Bank of Commerce. Interest will be payable on March 15 and September 15 in each year, commencing with September 15, 1975.

2. The Company may at any time and from time to time on at least sixty days' notice in writing to Northern and Central pay off this note in whole or in part by paying the principal amount of this note, or the amount hereof to be prepaid, together with interest accrued on the amount to be prepaid to the prepayment date. Upon any partial prepayment of this note Northern and Central shall make this note available to the Company at the said branch of the Canadian Imperial Bank of Commerce for notation thereon of the portion of the principal so prepaid. Notice of prepayment having been given as aforesaid, the principal amount to be prepaid and the interest thereon to the date of prepayment shall on the date designated in such notice become due and payable, and from and after such date, unless the Company shall default in payment of such principal amount and interest as aforesaid, interest on such principal amount shall cease to accrue.

3. Anything herein to the contrary notwithstanding, the principal of, and interest on, this note shall be subordinate, and junior in right of payment, to Prior Indebtedness of the Company, to the extent and in the manner hereinafter set forth:

3.1 In the event of any payment or distribution of assets of the Company upon any dissolution or winding-up or liquidation or scheme of arrangement (or reorganization equivalent thereto) of the Company, pursuant to the Companies' Creditors Arrangement Act, the Bankruptcy Act, the Winding-up Act, or any bankruptcy, insolvency or analogous law of Canada or of any province thereof, or in the event of an assignment for the benefit of creditors or any other marshalling of the assets and liabilities of the Company for the benefit of creditors:

(a) the holders of all Prior Indebtedness shall first be entitled to receive payment in full, in accordance with the terms of such Indebtedness, of the principal thereof and premium, if any, and interest thereon, before the holder of this note shall be entitled to receive any payment upon the principal of, or interest on, this note, and to that end the holder of this note by its acceptance hereof assigns to the holders of Prior Indebtedness or their Designated Representatives, for the purposes and to the extent set forth in this subsection, all its right, title and interest to and in any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the holder of this note would be entitled, except for securities of the Company which are subordinate and junior in right of payment, at least to the extent herein provided, to the payment of all Prior Indebtedness then outstanding, all to the extent necessary to provide for payment of all Prior Indebtedness in full, in accordance with the terms of such Indebtedness, but prior to any payment upon the principal of or interest on this note;

(b) in the event that, notwithstanding the provisions of subsection (a) hereof, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, except for securities of the Company which are subordinate, at least to the extent herein provided, and junior in right of payment to the payment of all Prior Indebtedness then outstanding, shall be received by the holder of this note before all Prior Indebtedness shall have been paid in full, in accordance with the terms of such Indebtedness, such payment or distribution shall be paid over by such holder to the holders of Prior Indebtedness or their Designated Representatives, rateably according to the aggregate amount of principal and premium, if any, and interest remaining unpaid on such Indebtedness represented by each, to the extent necessary to pay all Prior Indebtedness in full, in accordance with the terms of such Indebtedness; and

(c) whenever all Prior Indebtedness shall have been paid in full, in accordance with the respective terms thereof, the holder of this note shall be entitled to receive payment from any assets then available for such payment.

3.2 In the event that a Prior Indebtedness Default shall have occurred and be continuing (unless such Prior Indebtedness Default shall be continuing for more than six months and there is pending no legal proceeding with a view to having such Prior Indebtedness Default remedied), the Company and the holder of this note, by its acceptance hereof, agree that:

(a) the Company shall not purchase this note or make any payment of the principal of, or interest hereon, except regular interest payments which are made no more than 10 days prior to an interest payment date;

(b) if the holder of this note shall receive from the Company any payment of the principal of, or interest on, this note, except payments of interest permitted pursuant to the preceding paragraph (a), then (A) the holder of the note shall hold such amount, in trust for the benefit of the holders of Prior Indebtedness, rateably according to, and to the extent of, the aggregate amount of principal and premium, if any, and interest on each class of such Indebtedness remaining unpaid at the time of the occurrence of such Prior Indebtedness Default; and (B) the holder of this note shall from time to time pay over to the Designated Representative of each class of Prior Indebtedness, from the amount so held in trust for the benefit of such class, so much as shall at the time of such payment have become due, and remain unpaid, of the principal and premium, if any, and interest on such class, or, if the amount so due and unpaid shall be greater than the amount so held in trust for the benefit of such class, then the entire amount so held; provided, however, that if such Prior Indebtedness Default, and all other Prior Indebtedness Defaults that shall have occurred, shall be cured or waived, and all amounts that shall have become due for principal of, premium, if any, and interest on, all Prior Indebtedness shall have been paid (whether by the Company or by application by the holder of this note of the amounts received as aforesaid), and the holder of this note shall have received from the Company an officers' certificate, signed by the Company's President or any Vice-President and its Treasurer or any Assistant Treasurer, to that effect and either (x) shall have received a similar certificate from the Designated Representative of each class of Prior Indebtedness as to the payment in full of all amounts due in respect of such class, or (y) shall not, within 10 days after written request by the holder of this note to each such Designated Representative, have received a statement to the contrary from any such Designated Representative, such trusts for the benefit of the holders of Prior Indebtedness and their Designated Representatives shall terminate.

3.3 Subject to the payment in full of all Prior Indebtedness, in accordance with the terms of such Indebtedness, the holder of this note shall be subrogated to the rights of the holder or holders of the Prior Indebtedness to receive payments or distributions of assets of the Company applicable to such Prior Indebtedness, to the extent of the application thereto of moneys or other assets which would have been received by the holder of this note but for the provisions of this section 3, until the principal of, and interest on, this note shall be paid in full; it being understood that the provisions of this section 3 are intended solely for the purpose of defining the relative rights of the holders of this note and of Prior Indebtedness, and nothing in this section 3 or elsewhere is intended to or shall impair the obligation of the Company, subject to the rights of the holders of the Prior Indebtedness, to pay to the holder of this note the principal of, and interest on, this note as and when the same shall become due and payable in accordance with its terms, or to affect the relative rights of the holder of this note and creditors of the Company other than the holders of Prior Indebtedness, nor shall anything in this note prevent the holder of this note from exercising all remedies otherwise permitted by applicable law, upon default under this note, subject, in any event, to the rights, if any, under this section 3 of the holders of Prior Indebtedness in respect of any payment or distribution of cash, property or securities of the Company received upon the exercise of any such remedy.

3.4 The holders of any Prior Indebtedness may at any time in their discretion renew or extend the time of payment of the Prior Indebtedness so held or exercise any other of their rights under the Prior Indebtedness, including, without limitation, the waiver of default thereunder, all without notice to or assent from the holder of this note. No compromise, alteration, amendment, modification, extension, renewal

or other change of, or waiver, consent or other action in respect of, any liability or obligation under or in respect of, or of any of the terms, covenants or conditions of, any indenture or agreement under which any class of Prior Indebtedness shall have been issued, or of any class of Prior Indebtedness, and no release of property subject to the lien of any indenture, whether or not such release is in accordance with the provisions of such indenture, shall in any way alter or affect any of the provisions of this note relating to the subordination hereof.

3.5 The Company covenants that it will (i) at least annually deliver to the holder of this note an officers' certificate signed by the President or any Vice-President and the Treasurer or any Assistant Treasurer of the Company showing in reasonable detail the Prior Indebtedness outstanding as of the date of such certificate by classes and the Designated Representative of each class, and (ii) immediately upon the creation, payment or discharge of any class of Prior Indebtedness or upon the increase or decrease thereof, deliver to the holder of this note an officers' certificate, signed in like manner, to the effect that such Prior Indebtedness has been so created, paid, discharged, increased or decreased and stating the respective names and addresses of the holders of such Prior Indebtedness and, in case of the creation of any class of Prior Indebtedness, stating the name of the Designated Representative thereof.

3.6 The Company will not purchase this note, or make any payment of the principal of, or interest on, this note or make any other payments or distributions to any persons with respect hereto (other than payments of interest in accordance with paragraph (a) of subsection 3.2) unless full payment of all amounts then due on Prior Indebtedness has been made or duly provided for in accordance with the terms thereof.

3.7 The holder of this note by its acceptance hereof expressly authorizes, and shall be conclusively deemed to have authorized, the Company in connection with any indebtedness heretofore or hereafter incurred, which is for money borrowed by the Company or for money borrowed by others for the payment of which the Company is responsible or liable, or is incurred, assumed or guaranteed by the Company in connection with the acquisition by it or by any Subsidiary of any business, properties or other assets, or is a renewal, extension or refunding of any such indebtedness, to provide that such indebtedness constitutes or when created, guaranteed, or assumed shall constitute Prior Indebtedness within the meaning of this section 3 and that this note is subordinated thereto as in this section 3 provided.

3.8 The holder of this note by its acceptance hereof irrevocably appoints the Company its agent and attorney-in-fact for the purpose of executing and delivering agreements of subordination with provisions identical in effect to the foregoing provisions of this section 3 in favour of the holders of all present and future Prior Indebtedness, and their successors in interest. The Company shall keep on file at its principal office in Toronto, Canada, copies of all such agreements of subordination executed and delivered by it pursuant to this section 3 and such copies shall be open to inspection by the holder of this note or by any of the holders of Prior Indebtedness at such office during regular business hours.

3.9 As used herein, the following terms shall have the following respective meanings:

"Company" means Newco Ltd. and also includes any successor corporation.

"Designated Representative" means, as applied to any class of Prior Indebtedness which shall have been issued under an indenture, the trustee or trustees under such indenture, except that, if any other person shall be designated in writing to the holder of this note by the holders of a majority of the outstanding principal amount of such class of Prior Indebtedness, such person shall be the Designated Representative of such class; and, as applied to any other class of Prior Indebtedness, the person designated in writing to the holder of this note by the holders of a majority of the outstanding principal amount thereof, or, in the absence of such designation, the person designated in writing to the holder of this note by the Company.

"person" means and includes an individual, a partnership, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"Prior Indebtedness" means the principal of and premium, if any, and interest on (a) all indebtedness of the Company now outstanding or hereafter incurred for money borrowed by the Company (including all indebtedness to banks or other financial institutions evidenced by notes or other written obligations) or for money borrowed by others (including all indebtedness to banks or other

financial institutions evidenced by notes or other written obligations) for the payment of which the Company is responsible or liable, directly or indirectly by guarantee or otherwise, (b) indebtedness of the Company incurred, assumed or for which it is responsible or liable, directly or indirectly by guarantee or otherwise, in connection with the acquisition, by lease or otherwise, by the Company or by any Subsidiary of any business, properties or other assets, in each case whether outstanding on the date of this note or outstanding hereafter, and (c) amendments, renewals, extensions and refundings of any such indebtedness; provided, however, that such indebtedness shall not constitute Prior Indebtedness if by the terms of the instrument (including amendments or supplements thereto) creating or evidencing such indebtedness, or under or pursuant to which the same is issued or outstanding or assumed or guaranteed, it is specifically provided that such indebtedness is not Prior Indebtedness for the purposes hereof and is not superior in right of payment to the principal of and interest on this note.

“Prior Indebtedness Default” means the occurrence of any event which would permit the holder or holders of any class of Prior Indebtedness, or one or more representatives or trustees in their behalf, to declare such Prior Indebtedness due and payable prior to the stated maturity thereof.

“Subsidiary” means any corporation more than 50% of the outstanding voting shares of which at the time is owned or controlled directly or indirectly by the Company and/or by one or more Subsidiaries. The term “voting shares” in the foregoing provision shall mean shares of a corporation having general voting power under ordinary circumstances to elect a majority of the Board of Directors (or the managers or trustees, if any) of such corporation, irrespective of whether or not at the time shares of any other class or classes shall have or might have voting power by reason of the happening of any contingency.

“successor corporation” means (a) any corporation into or with which the Company is amalgamated or otherwise merged and any corporation resulting therefrom, and (b) any corporation to which the Company transfers its undertaking and assets as an entirety or substantially as an entirety, provided in every case that such other corporation becomes liable to pay the principal of and interest on this note in accordance with the terms hereof.

IN WITNESS WHEREOF the Company has executed this note under its corporate seal this day of
 , 1975.

NEWCO LTD.

per:

per:.....

SCHEDULE C

This AMALGAMATION AGREEMENT is made as of the 11th day of December, 1974,

BETWEEN:

CANADIAN INDUSTRIAL GAS & OIL LTD., a body corporate organized under the laws of the Province of Alberta with its registered office in the City of Calgary,
(hereinafter called "Cigol")

OF THE FIRST PART

and

NEWCO LTD., a body corporate organized under the laws of the Province of Alberta with its registered office in the City of Calgary,
(hereinafter called "Newco")

OF THE SECOND PART.

WHEREAS Cigol and Newco were both organized under The Companies Act of Alberta (the "Act") and are presently in good standing in this jurisdiction;

AND WHEREAS Cigol and Newco acting under the authority of Section 156 of the Act have agreed to enter into this Agreement for the amalgamation (hereinafter called the "Amalgamation") of Cigol and Newco into one company to be known by the name "Norcen Energy Resources Limited" (hereinafter called the "Company");

AND WHEREAS such amalgamation forms part of a reorganization involving Northern and Central Gas Corporation Limited ("N & C"), a body corporate organized under the laws of the Province of Ontario with its head office in the Municipality of Metropolitan Toronto, Cigol and Newco and, pursuant to the terms of such reorganization, N & C is to make an arrangement under The Business Corporations Act of Ontario prior to such amalgamation whereby N & C and Cigol will become subsidiaries of Newco (which arrangement is set forth in the scheme of arrangement annexed hereto as Exhibit I and is hereinafter called the "Arrangement");

AND WHEREAS Cigol is authorized to issue 50,000,000 Common Shares without par value issuable for a price or consideration not exceeding in the aggregate the sum of \$50,000,000, of which 21,644,128 Common Shares are outstanding, having been issued as fully paid and non-assessable, and 449,091 Common Shares have been reserved for issuance upon the exercise of options and convertible debt instruments;

AND WHEREAS Newco is authorized to issue 20,000 Common Shares without par value issuable for a price or consideration not exceeding in the aggregate the sum of \$20,000, of which three Common Shares are outstanding, having been issued as fully paid and non-assessable;

AND WHEREAS, under the terms of the Arrangement, Newco is to increase its authorized capital, immediately prior to the Arrangement becoming effective, so that Newco's authorized capital will consist of (i) 1,253,620 First Preference Shares, issuable in series, of which 7,203 shares will be authorized for issuance as \$1.06 Cumulative Redeemable First Preference Shares, Series A and 1,246,417 shares will be authorized for issuance as \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B, (ii) 1,500,000 Junior Preference Shares, issuable in series, all of which will be authorized for issuance as \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, and (iii) 13,500,000 Common Shares;

AND WHEREAS, upon the Arrangement becoming effective, Newco will own 13,112,529 Common Shares of Cigol, and Newco will have outstanding the same number of its \$1.06 Cumulative Redeemable First Preference Shares, Series A, of its \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B, of its \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, and of its Common Shares as the number of N & C's \$1.06 Cumulative Redeemable Second Preference Shares, Series A, N & C's \$1.50 Cumulative Redeemable Convertible Second Preference Shares, Series B, N & C's \$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series, and N & C's Common Shares, respectively, that were outstanding immediately prior to the Arrangement becoming effective;

AND WHEREAS each party hereto has made full and complete disclosure to the other party hereto of its known assets and liabilities;

AND WHEREAS it is desirable that the Amalgamation should be effected;

NOW THEREFORE THIS AGREEMENT WITNESSETH that, in consideration of the premises and of the mutual covenants hereinafter contained, the parties hereto agree as follows:

1. Cigol and Newco shall amalgamate, under the provisions of Section 156 of the Act, and continue as one company (the Company) limited by shares, being a public company, under the terms and conditions hereinafter set out.
2. The name of the Company shall be "Norcen Energy Resources Limited".
3. The objects of the Company shall be as follows:
 - (a) to process, explore and drill for, produce and accumulate oil, gas, coal, any other minerals or sources of energy, and by-products or derivatives of any of the foregoing;
 - (b) to refine, process, treat, manufacture, store, transmit, transport, distribute and in any manner whatsoever deal in or with oil, gas, coal, any other minerals or sources of energy, and by-products or derivatives of any of the foregoing;
 - (c) to construct, own and operate pipelines and plants and all appurtenances relative thereto for the gathering, refining, processing, treating, storing, transmitting, transporting, distributing and/or delivering of gases, liquids and solids or any of them;
 - (d) to manufacture, produce, provide, furnish, distribute or sell goods and services of every nature and kind whatsoever; and
 - (e) to invest in the shares, bonds, debentures or other securities of any other company or organization and to manage, supervise, control or in any other manner whatsoever participate in the business, operation or undertaking of any other company or organization of which the Company holds any shares, bonds, debentures or other securities or in which the Company has any other interest.

In the interpretation of the foregoing objects, the meaning of any particular object of the Company shall not be restricted by reference to or inference from any other object or the name of the Company or by the juxtaposition of two or more objects and, in the event of any ambiguity, this provision shall be construed in such manner as to widen and not to restrict the objects of the Company.

The Company shall have the powers set forth in the Act.

4. The names, occupations and places of residence of the first Directors of the Company shall be as follows:

Name	Occupation	Place of Residence
Edward G. Battle	Executive	44 Charles Street West, Apartment 4102, Toronto, Ontario.
Edmund C. Bovey	Executive	33 York Ridge Road, Willowdale, Ontario.
C. Spencer Clark	Executive	Spring Drive, The Highlands, Seattle, Washington, U.S.A.
E. Jacques Courtois	Queen's Counsel	9 Chelsea Place, Montreal, Quebec.
J. Ian Crookston	Executive	70 Ardwood Gate, Toronto, Ontario.
Edward A. Galvin	Executive	4103 Crestview Road S.W., Calgary, Alberta.
F. A. M. Huycke	Queen's Counsel	39 Rosedale Heights Drive, Toronto, Ontario.
Raymond Lavoie	Executive	69 Maplewood Avenue, Montreal, Quebec.

Name	Occupation	Place of Residence
A. Searle Leach	Executive	761 Wellington Crescent, Winnipeg, Manitoba.
Richey B. Love	Queen's Counsel	72 Baycrest Place S.W., Calgary, Alberta.
Blanke Noyes	Investment Banker	373 Brookside Drive, Darien, Connecticut, U.S.A.
Linden J. Richards	Executive	46 Medford Place, Calgary, Alberta.
Henry S. Romaine	Executive	162 Croton Lake Road, Mt. Kisco, New York, U.S.A.
William I. M. Turner, Jr.	Executive	4294 Montrose Avenue, Westmount, Montreal, Quebec.
Adam H. Zimmerman	Executive	15 Edgar Avenue, Toronto, Ontario.

5. The said first Directors shall hold office until the first annual meeting of the Company or until their successors are elected or appointed. The subsequent Directors shall be elected each year thereafter as provided for in the Articles of Association of the Company.

6. The names of and the offices to be held respectively by the principal officers of the Company, until others are elected or appointed by the Directors of the Company in their place, shall be as follows:

Name	Office Held
Edmund C. Bovey	Chairman of the Board
C. Spencer Clark	Vice-Chairman of the Board
Edward A. Galvin	Vice-Chairman of the Board
Edward G. Battle	President
Timothy G. Sheeres	Secretary-Treasurer

7. The authorized capital of the Company shall be \$132,500,000 divided into 1,300,000 First Preference Shares with a par value of \$25.00 each, issuable in series, and 4,000,000 Junior Preference Shares with a par value of \$25.00 each, issuable in series. The Company shall also be authorized to issue 50,000,000 Common Shares without par value, provided that such Common Shares shall not be issued for a price or consideration exceeding in the aggregate the sum of \$150,000,000.

The rights, restrictions, conditions and limitations attaching to the Preference Shares of the Company shall be as follows:

First Preference Shares

The First Preference Shares shall, as a class, have attached thereto the following rights, restrictions, conditions and limitations:

(1) In addition to the first series of the First Preference Shares designated "\$1.06 Cumulative Redeemable First Preference Shares, Series A" and the second series of the First Preference Shares designated "\$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B" hereinafter referred to, the First Preference Shares may at any time or from time to time be issued in one or more series, each additional series to consist of such number of shares as may before the issue thereof be determined by the Directors; the Directors of the Company may (subject as hereinafter provided) by resolution fix from time to time before the issue thereof the designation, rights, restrictions, conditions and limitations attaching to the First Preference Shares of each additional series including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, the redemption price and terms and conditions of redemption, conversion rights (if any) and any sinking fund or other provisions.

(2) The First Preference Shares of each series shall be entitled to preference over the Common Shares of the Company and any other shares ranking junior to the First Preference Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs and may also be given such other preferences over the Common Shares of the Company and any other shares ranking junior to the First Preference Shares as may be determined as to the respective series authorized to be issued.

(3) The First Preference Shares of each series shall rank on a parity with the First Preference Shares of every other series with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

(4) The deletion or variation of any right, restriction, condition or limitation attaching to the First Preference Shares as a class or the creation of preference shares ranking in priority to or on a parity with the First Preference Shares must be authorized by at least three-fourths of the votes cast at a meeting of the holders of the First Preference Shares duly called for that purpose and held upon at least 21 days' notice at which the holders of at least a majority of the outstanding First Preference Shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding First Preference Shares are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than 21 days later and to such time and place as may be appointed by the chairman and not less than 21 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 the First Preference Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than three-fourths of the votes cast at such meeting shall constitute the authorization of the holders of the First Preference Shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the Articles of Association of the Company with respect to meetings of shareholders.

(5) The Company shall not redeem, purchase, reduce or otherwise pay off less than all the First Preference Shares then outstanding unless all dividends, up to and including the dividend payable on the last preceding dividend payment date, on all the First Preference Shares then outstanding shall have been declared and paid or provided for.

The first series of the First Preference Shares shall consist of 7,203 shares with a par value of \$25.00 each which shall be designated "\$1.06 Cumulative Redeemable First Preference Shares, Series A" (hereinafter called the "First Preference Shares, Series A") and which, in addition to the rights, restrictions, conditions and limitations attaching to the First Preference Shares as a class, shall have attached thereto the following:

(1) The holders of the First Preference 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 \$1.06 per share per annum payable by quarterly instalments of 26½¢ each on the first day of February, May, August and November in each year; such dividends shall accrue from the effective date of the Amalgamation; cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends and payment thereof shall satisfy such dividends; if on any dividend payment date the dividend payable on such date is not paid in full on all the First Preference Shares, Series A then outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the Directors of the Company on which the Company shall have sufficient moneys properly applicable to the payment of the same; the holders of the First Preference Shares, Series A shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for.

(2) In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the First Preference Shares, Series A shall be entitled to receive an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of ten per cent of such amount,

plus all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of distribution), before any amount shall be paid or any property or assets of the Company distributed to the holders of the Common Shares or shares of any other class ranking junior to the First Preference Shares, Series A; after payment to the holders of the First Preference Shares, Series A of the amount so payable to them, such holders shall not be entitled to share in any further distribution of the property or assets of the Company.

(3) Subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, and to the Act, the Company may, in addition to its right to redeem First Preference Shares, Series A in the manner and on the terms provided in sub-paragraphs (4) and (5) below, at any time or times purchase (if obtainable) for cancellation all or any part of the First Preference Shares, Series A outstanding from time to time in the market (including purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the First Preference Shares, Series A outstanding at the lowest price or prices at which, in the opinion of the Directors, such shares are obtainable but not exceeding an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of ten per cent of such amount, plus costs of purchase and all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of purchase); if upon any invitation for tenders under the provisions of this sub-paragraph (3) more First Preference Shares, Series A are tendered at a price or prices acceptable to the Company than the Company is willing to purchase, the Company will accept, to the extent required, the tenders submitted at the lowest price and then, if and as required, the tenders submitted at the next progressively higher prices and, if more shares are tendered at any such price than the Company is prepared to purchase, the shares tendered at that price will be purchased as nearly as may be pro rata (disregarding fractions) according to the number of First Preference Shares, Series A so tendered by each of the holders of First Preference Shares, Series A who submitted tenders at that price.

(4) Subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, 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 First Preference Shares, Series A on payment for each share to be redeemed of an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of ten per cent of such amount and all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of redemption).

(5) In any case of redemption of First Preference Shares, Series A under sub-paragraph (4) of these provisions, the Company shall at least 30 days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of First Preference Shares, Series A to be redeemed a notice in writing of the intention of the Company to redeem such First Preference Shares, Series A; such notice shall be mailed in a prepaid letter 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 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 First Preference Shares, Series A held by the person to whom such notice 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 First Preference Shares, Series A to be redeemed the redemption price on presentation and surrender at the registered office of the Company or any other place designated in such notice of the certificates representing the First Preference Shares, Series A so called for redemption; such payment shall be made by cheque payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted); if part only of the First Preference Shares, Series A 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 First Preference Shares, Series A 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 and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Company shall have the right at any time after the mailing of notice of its intention to redeem any First Preference Shares, Series A as aforesaid to deposit the redemption price of the First Preference Shares, Series A so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption in a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such First Preference Shares, Series A called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the First Preference Shares, Series A in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Company.

(6) Subject as hereinafter provided and subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, so long as any of the First Preference Shares, Series A are outstanding, the Company shall, commencing in 1975, and in each calendar year thereafter, out of Consolidated Earned Surplus, apply the sum of \$195,000 to the retirement of First Preference Shares, Series A by purchase for cancellation; provided that no such purchase shall be required to be made in any year except to the extent that First Preference Shares, Series A are available for purchase in the open market by the Company in such year at a price not exceeding the amount paid up thereon, plus costs of purchase; and provided further that the Company shall not purchase any First Preference Shares, Series A for cancellation in accordance with the provisions of this sub-paragraph (6) unless all dividends up to and including the dividend payable on the last preceding dividend payment date or dates on all the First Preference Shares then outstanding shall have been declared and paid or provided for; and provided further that the Company shall not purchase any First Preference Shares, Series A for cancellation in accordance with the provisions of this sub-paragraph (6) if such purchase would render the Company insolvent or be contrary to the Act; and provided further that any amount not so applied in any calendar year by reason of the foregoing provisos shall not be required to be so applied in any succeeding calendar year.

(7) The First Preference Shares, Series A which are purchased or redeemed in accordance with sub-paragraphs (3), (4), (5) and (6) of these provisions shall be deemed to be cancelled and shall not be reissued.

(8) The Company shall not without, but may from time to time with, the authorization of the holders of the First Preference Shares, Series A given as specified in sub-paragraph (11) of these provisions:

(a) increase the authorized amount of the First Preference Shares or create any class of shares ranking in priority to or on a parity with the First Preference Shares;

(b) issue any First Preference Shares in addition to the First Preference Shares, Series A and \$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B (hereafter in this clause (b) called "additional shares") unless Consolidated Net Earnings for any period of 12 consecutive months out of the 18 months immediately preceding the date of issue of such additional shares shall have been at least equal to two and one-half times the maximum annual dividend requirements on all the First Preference Shares to be outstanding immediately after such issue; provided that any First Preference Shares outstanding at the time of any issue of additional shares as aforesaid which are to be retired within 60 days following such time shall be deemed not to be outstanding immediately after such issue of additional shares if such outstanding First Preference Shares shall have been duly called for redemption as of a date within such period of 60 days and if adequate provision has been made assuring that such shares will be redeemed on the date so specified for redemption;

(c) redeem, purchase, reduce or otherwise pay off any Common Shares or any other shares ranking junior to the First Preference Shares (except out of the proceeds of an issue of shares ranking junior to the First Preference Shares made prior to or contemporaneously with any such redemption, purchase, reduction or other payment off), (i) unless all dividends, up to and including the dividend payable on the last preceding dividend payment date, on all the First Preference Shares then outstanding shall have been declared and paid or provided for, or (ii) if, after giving effect thereto,

the aggregate amount of capital paid up on the Common Shares and any other shares of the Company ranking junior to the First Preference Shares plus the Consolidated Earned Surplus (both as at the date of such redemption, purchase, reduction or other payment off) would be less than the aggregate par value of all First Preference Shares then outstanding; or

(d) declare, pay or set apart any dividend on the Common Shares or any other shares of the Company ranking junior to the First Preference Shares unless all dividends, up to and including the dividend payable on the last preceding dividend payment date, on all the First Preference Shares then outstanding shall have been declared and paid or provided for.

(9) Sub-paragraphs (1) to (11) inclusive of these provisions may be deleted, varied, modified, amended or amplified only by a special resolution (within the meaning of the Act) confirmed by an order of the Supreme Court of Alberta with the authorization of the holders of the First Preference Shares, Series A given as specified in sub-paragraph (11) of these provisions.

(10) In sub-paragraphs (1) to (11) inclusive of these provisions the following terms shall have the following respective meanings and the word "Company" when used in this sub-paragraph (10) with respect to any date or period prior to the effective date of the Amalgamation shall mean N & C or, if prior to January 1, 1968, its predecessor Northern and Central Gas Company Limited:

(a) "subsidiary" means any corporation or company of which more than 50% of the outstanding voting shares are for the time being owned by or held for the Company and/or any subsidiary of the Company and includes any corporation or company in like relation to a subsidiary; "voting shares" as used in this definition means shares of any class carrying voting rights but shall not include shares of any class carrying limited voting rights or carrying voting rights by reason of the happening of any contingency whether or not such contingency shall have happened;

(b) "Consolidated Net Earnings" means all the gross earnings and income of the Company and its subsidiaries from all sources less all administrative, selling and operating charges and expenses of every character and all fixed charges of the Company and its subsidiaries (but excluding gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting practice, after making due allowance for minority interests, if any, and after proper allowance for depreciation, depletion, amortization and taxes (including income taxes); the net earnings of any subsidiary for the purpose of this definition shall only include the net earnings of such subsidiary from the date when such subsidiary became a subsidiary of the Company, subject as hereinafter provided; if, at the time of determining Consolidated Net Earnings for any past period, 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 other company already owned by the Company or a subsidiary to result in such other company becoming a subsidiary) and if the net proceeds of a then proposed issue of First Preference 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 which a resolution of the Directors shall be conclusive and binding), then the net earnings or net losses of such property or such other company for the same period (calculated in accordance with the provisions herein contained respecting Consolidated Net Earnings) 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 Consolidated Net Earnings; Consolidated Net Earnings shall (subject as hereinafter provided with respect to the determination of Consolidated Earned Surplus) be determined by the auditors of the Company whose determination shall be conclusive and binding on the Company and the holders of shares of every class;

(c) "Consolidated Earned Surplus" means the Consolidated Net Earnings of the Company and its subsidiaries since May 6, 1954, less all dividends declared and/or paid (other than in shares of the Company) on all shares of all classes of the Company and all items which in accordance with generally accepted accounting practice are properly chargeable to earned surplus, the whole as determined on a consolidated basis in accordance with generally accepted accounting practice; the Directors of the Company may from time to time determine the capital paid up on the Common Shares and any other shares of the Company ranking junior to the First Preference Shares and/or the Consolidated Earned Surplus as of a date not more than 120 days prior to the making of such determination and may determine such Consolidated Earned Surplus 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 upon 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 upon the last available unaudited consolidated balance sheet of the Company and its subsidiaries and/or the last available unaudited 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; provided that the Directors shall not make any such determination on the basis of any such balance sheet, statement, report or other data if to their knowledge any event has happened which would materially and adversely affect such capital paid up or such Consolidated Earned Surplus as determined on such basis; upon any determination having been made by the Directors under the foregoing provisions hereof, such capital paid up and/or the Consolidated Earned Surplus as at any date within a period of 120 days following the date as of which such determination is made shall (unless any further determination of such capital paid up and/or such Consolidated Earned Surplus is so made as of any later date within the said period) be conclusively deemed to be not less than the amount stated in such determination and such determination shall, subject as aforesaid, be conclusive and binding upon the Company and the shareholders of every class; notwithstanding the foregoing the Directors of the Company shall not take any action on the basis of any such determination if prior to the taking of such action any event has, to their knowledge, happened since the date on which such determination was made which would materially and adversely affect such capital paid up or such Consolidated Earned Surplus as so determined.

(11) Any authorization required to be given by the holders of the First Preference Shares, Series A hereunder shall be deemed to have been sufficiently given if contained in an instrument or instruments in writing signed by the holders of all of the outstanding First Preference Shares, Series A or if it shall have been given by a resolution passed at a special meeting of the holders of the First Preference Shares, Series A duly called for that purpose and held upon at least 21 days' notice at which the holders of at least a majority of the outstanding First Preference Shares, Series A are present or represented by proxy and carried by the affirmative vote of the holders of not less than three-fourths of the First Preference Shares, Series A represented and voted at such meeting cast on a poll; if at any such meeting the holders of a majority of the outstanding First Preference Shares, Series A are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than 21 days later and to such time and place as may be appointed by the chairman and not less than 21 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 First Preference Shares, Series A present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than three-fourths of the votes cast at such meeting shall constitute the authorization of the holders of the First Preference Shares, Series A referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the Articles of Association of the Company with respect to meetings of shareholders.

The second series of the First Preference Shares shall consist of 1,246,417 shares with a par value of \$25.00 each which shall be designated "\$1.50 Cumulative Redeemable Convertible First Preference Shares, Series B" (hereinafter called the "First Preference Shares, Series B") and which, in addition to the rights, restrictions, conditions and limitations attaching to the First Preference Shares as a class, shall have attached thereto the following:

(1) The holders of the First Preference Shares, Series B 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 \$1.50 per share per annum payable by quarterly instalments of $37\frac{1}{2}\text{¢}$ each on the fifteenth day of February, May, August and November in each year; such dividends shall accrue from the effective date of the Amalgamation; cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends and payment thereof shall satisfy such dividends; if on any dividend payment date the dividend payable on such date is not paid in full on all the First Preference Shares, Series B then outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the Directors of the Company on which the Company shall have sufficient moneys properly applicable to

the payment of the same; the holders of the First Preference Shares, Series B shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for.

(2) In the event of the liquidation, dissolution or winding-up of the Company or any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the First Preference Shares, Series B shall be entitled to receive an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of six per cent of such amount, plus all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of distribution), before any amount shall be paid or any property or assets of the Company distributed to the holders of the Common Shares or shares of any other class ranking junior to the First Preference Shares, Series B; after payment to the holders of the First Preference Shares, Series B of the amount so payable to them, such holders shall not be entitled to share in any further distribution of the property or assets of the Company.

(3) Subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, and to the Act, the Company may, in addition to its right to redeem First Preference Shares, Series B in the manner and on the terms provided in sub-paragraphs (4) and (5) below, at any time or times purchase (if obtainable) for cancellation all or any part of the First Preference Shares, Series B outstanding from time to time in the market (including purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the First Preference Shares, Series B outstanding at the lowest price or prices at which, in the opinion of the Directors, such shares are obtainable but not exceeding an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of six per cent of such amount, plus costs of purchase and all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of purchase); if upon any invitation for tenders under the provisions of this sub-paragraph (3) more First Preference Shares, Series B are tendered at a price or prices acceptable to the Company than the Company is willing to purchase, the Company will accept, to the extent required, the tenders submitted at the lowest price and then, if and as required, the tenders submitted at the next progressively higher prices and, if more shares are tendered at any such price than the Company is prepared to purchase, the shares tendered at that price will be purchased as nearly as may be pro rata (disregarding fractions) according to the number of First Preference Shares, Series B so tendered by each of the holders of First Preference Shares, Series B who submitted tenders at that price.

(4) Subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, the Company may upon giving notice as hereinafter provided redeem at any time after August 14, 1976 the whole, or from time to time after August 14, 1976 any part, of the then outstanding First Preference Shares, Series B on payment for each share to be redeemed of an amount equal to the amount paid up thereon (not exceeding the par value thereof), together with a premium of six per cent of such amount and all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of redemption).

(5) In any case of redemption of First Preference Shares, Series B under sub-paragraph (4) of these provisions, the Company shall at least 30 days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of First Preference Shares, Series B to be redeemed a notice in writing of the intention of the Company to redeem such First Preference Shares, Series B; such notice shall be mailed in a prepaid letter 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 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 First Preference Shares, Series B held by the person to whom such notice is addressed are 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 First Preference Shares, Series B to be redeemed the redemption price on presentation and surrender at the registered office of the Company or any other place designated in such notice of the certificates representing the First Preference Shares, Series B so called for redemption; such payment shall be made

by cheque payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted); if part only of the First Preference Shares, Series B 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 First Preference Shares, Series B 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 and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Company shall have the right at any time after the mailing of notice of its intention to redeem any First Preference Shares, Series B as aforesaid to deposit the redemption price of the First Preference Shares, Series B so called for redemption or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption in a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such First Preference Shares, Series B called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the First Preference Shares, Series B in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Company.

(6) Subject as hereinafter provided and subject to the provisions of sub-paragraph (5) of the provisions attaching to the First Preference Shares as a class, so long as any of the First Preference Shares, Series B are outstanding, the Company shall, commencing in 1975, and in each calendar year thereafter, out of Consolidated Earned Surplus, apply the sum of \$825,000 to the retirement of First Preference Shares, Series B by purchase for cancellation; provided that no such purchase shall be required to be made in any year except to the extent that First Preference Shares, Series B are available for purchase in the open market by the Company in such year at a price not exceeding the amount paid up thereon plus costs of purchase; and provided further that the Company shall not purchase any First Preference Shares, Series B for cancellation in accordance with the provisions of this sub-paragraph (6) unless all dividends, up to and including the dividend payable on the last preceding dividend payment date or dates, on all the First Preference Shares then outstanding shall have been declared and paid or provided for; and provided further that the Company shall not purchase any First Preference Shares, Series B for cancellation in accordance with the provisions of this sub-paragraph (6) if such purchase would render the Company insolvent or be contrary to the Act; and provided further that any amount not so applied in any calendar year by reason of the foregoing provisos shall not be required to be so applied in any succeeding calendar year.

(7) The First Preference Shares, Series B which are purchased or redeemed in accordance with sub-paragraphs (3), (4), (5) and (6) of these provisions shall be deemed to be cancelled and shall not be reissued.

(8) (a) Upon and subject to the terms and conditions hereinafter set forth the holders of First Preference Shares, Series B shall have the right at any time up to the close of business on August 15, 1977 to convert fully-paid First Preference Shares, Series B into fully-paid and non-assessable Common Shares on the basis of nine Common Shares for every five First Preference Shares, Series B so converted.

(b) The conversion privilege herein provided for may be exercised by notice in writing given to the transfer agent of the Company for the First Preference Shares, Series B at its principal office in any of the Cities of Toronto, Montreal, Winnipeg, Calgary and Vancouver, Canada, or to such other transfer agent at such other city or cities as the Company may from time to time appoint, accompanied by the certificate or certificates representing the First Preference 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 agent and shall specify the number of First Preference Shares, Series B which the holder desires to have converted; if less than all the First Preference 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 First Preference

Shares, Series B comprised in the certificate or certificates surrendered as aforesaid which are not to be converted.

(c) Subject to the provisions of clause (g) of this sub-paragraph (8), upon the conversion of any First Preference Shares, Series B there shall be no payment or adjustment by the Company or by any holder of First Preference Shares, Series B on account of any dividends either on the First Preference Shares, Series B so converted or on the Common Shares resulting from such conversion.

(d) In the case of any First Preference Shares, Series B 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 last business day prior to the date fixed for redemption, provided, however, that if the Company shall fail to redeem such First Preference Shares, Series B in accordance with the notice of redemption the right of conversion shall thereupon be restored.

(e) On any conversion of First Preference Shares, Series B, the share certificates for Common Shares resulting therefrom shall be issued in the name of the registered holder of the First Preference Shares, Series B converted or in such name or names as such registered holder may direct in writing (either in the notice referred to in clause (b) of this sub-paragraph (8) or otherwise), provided that such registered holder shall pay any applicable security transfer taxes.

(f) Subject as hereinafter provided in this clause (f), the right of a holder of First Preference Shares, Series B to convert the same into Common Shares shall be deemed to have been exercised, and the registered holders of First Preference Shares, Series B to be converted (or any person or persons in whose name or names any such registered holder of First Preference Shares, Series B shall have directed certificates representing Common Shares to be issued as provided in clause (e) of this sub-paragraph (8)) shall be deemed to have become holders of Common Shares of record for all purposes on the respective dates of surrender of certificates representing the First Preference Shares, Series B to be converted accompanied by notice in writing, notwithstanding any delay in the delivery of certificates representing the Common Shares into which such First Preference Shares, Series B have been converted, but, should any certificates representing First Preference Shares, Series B be duly surrendered for conversion during a period when the registers of transfers of Common Shares are properly closed, the registered holders thereof (or other person or persons as aforesaid) shall be deemed to become holders of Common Shares of record immediately upon the reopening of such registers of transfers.

(g) (A) In the event of any subdivision and/or change of the Common Shares at any time on or before August 15, 1977, into a greater number and/or a different class or classes of shares, the holder of any First Preference Shares, Series B exercising the conversion right attaching thereto at any time after such subdivision and/or change shall be entitled to such additional number and/or different class or classes of shares as would have resulted from such subdivision and/or change if the right of conversion had been exercised prior to the date of such subdivision and/or change.

(B) In the event of any consolidation and/or change of the Common Shares at any time on or before August 15, 1977 into a lesser number and/or different class or classes of shares, the holder of any First Preference Shares, Series B exercising the conversion right attaching thereto at any time after such consolidation and/or change shall be entitled to such lesser number and/or different class or classes of shares as would have resulted from such consolidation and/or change if the right of conversion had been exercised prior to the date of such consolidation and/or change.

(C) If the holder of any First Preference Shares, Series B shall exercise the conversion right attaching thereto at any time after the payment by the Company of any dividend on the Common Shares payable in shares of the Company or a dividend on the Common Shares payable at the option of the holder thereof either in shares of the Company or in cash, such holder shall be entitled to, in addition to the number of Common Shares which he would have been entitled to on the exercise of such right of conversion of such First Preference Shares, Series B if such dividend had not been paid, such additional number of shares as would have been payable on the Common Shares (assuming where applicable that such holder would have exercised his option to receive such dividend in shares of the Company) which would have resulted from the exercise of such right of conversion if they had been outstanding on the record date for the payment of such dividend.

(D) If any question shall at any time arise with respect to adjustments of the conversion privilege as aforesaid, 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.

(E) If the Company proposes to issue subscription warrants, or other rights, to all the holders of its Common Shares to purchase shares of the Company, the Company shall so notify each registered holder of First Preference Shares, Series B by written notice given (in the manner provided in sub-paragraph (5) of these provisions for the giving of notice of redemption) at least 15 days prior to the date fixed by the Company as the record date in connection with the issue of such subscription warrants or other rights to purchase shares.

- (h) (A) The Company shall not issue fractional shares upon any conversion of First Preference Shares, Series B. If a fractional interest in a Common Share would, except for the provisions of this clause (h), be issuable upon conversion of a First Preference Share, Series B, the Company shall issue a bearer non-voting and non-dividend-bearing scrip certificate of the Company in respect of such fractional interest, which certificate, when surrendered within two years from the date of issuance thereof to a transfer agent for the Company's Common Shares (hereafter in this clause (h) called the "Scrip Agent") at any office for the transfer of such Common Shares (hereafter in this clause (h) called the "Scrip Office"), together with similar scrip certificates (issued not more than two years prior to the date of surrender) representing in the aggregate the right to receive at least one whole Common Share, shall be exchangeable for a share certificate or certificates for the full number of fully-paid and non-assessable Common Shares called for by all the scrip certificates so surrendered and a new scrip certificate in respect of any remaining fractional interest in a Common Share called for thereby.

(B) The Common Shares of the Company underlying the total number of scrip certificates to which persons become entitled as aforesaid shall be issued to the Scrip Agent(s) and all dividends received by the Scrip Agent(s) upon the underlying Common Shares shall be held in trust by the Scrip Agent(s) for the holders of the outstanding scrip certificates. Upon presentation of a scrip certificate at a Scrip Office, the holder thereof shall be entitled to receive payment of his proportionate share of all dividends (less any applicable withholding tax) received by the Scrip Agent(s) as aforesaid.

(C) If any scrip certificates are outstanding at the expiration of two years from the date of issuance thereof, the underlying Common Shares of the Company shall be sold by the Scrip Agent(s) on behalf of the holders of such scrip certificates in such manner and at such price and on such other terms and at such time or times as the Scrip Agent(s) may determine, and the proceeds of such sale and all dividends received by the Scrip Agent(s) upon the shares so sold shall be held in trust by the Scrip Agent(s) for such holders and shall be distributed pro rata (less any applicable withholding tax) to the holders of scrip certificates upon the surrender thereof at the Scrip Offices.

(D) Dividends paid to Scrip Agent(s) on the Common Shares of the Company underlying outstanding scrip certificates and the proceeds of sale of such shares may be invested by the Scrip Agent(s) as the Scrip Agent(s) may determine, and any charges of the Scrip Agent(s) in respect thereof shall be charged to and paid out of the income arising from such investment.

- (i) The Company shall reserve, set aside and hold out of its authorized capital a sufficient number of unissued Common Shares to enable all of the First Preference Shares, Series B outstanding from time to time to be converted upon the basis and upon the terms and conditions herein provided. All shares resulting from any conversion of First Preference Shares, Series B into Common Shares (including whole Common Shares resulting from the consolidation by the Company of fractions of shares which result from conversions) shall be deemed to be fully-paid and non-assessable. Nothing herein contained shall affect or restrict the right of the Company to increase the number of its authorized Common Shares in accordance with the provisions of the Act and to issue such shares from time to time.

- (9) The Company shall not without, but may from time to time with, the authorization of the holders of the First Preference Shares, Series B given as specified in sub-paragraph (12) hereof:

- (a) increase the authorized amount of the First Preference Shares or create any class of shares ranking in priority to or on a parity with the First Preference Shares;

(b) issue any First Preference Shares in addition to the First Preference Shares, Series A and Series B (hereafter in this clause (b) called "additional shares") unless Consolidated Net Earnings for any period of 12 consecutive months out of the 18 months immediately preceding the date of issue of such additional shares shall have been at least equal to two and one-half times the maximum annual dividend requirements on all the First Preference Shares to be outstanding immediately after such issue; provided that any First Preference Shares outstanding at the time of any issue of additional shares as aforesaid which are to be retired within 60 days following such time shall be deemed not to be outstanding immediately after such issue of additional shares if such outstanding First Preference Shares shall have been duly called for redemption as of a date within such period of 60 days and if adequate provision has been made assuring that such shares will be redeemed on the date so specified for redemption;

(c) redeem, purchase, reduce or otherwise pay off any Common Shares or any other shares ranking junior to the First Preference Shares (except out of the proceeds of an issue of shares ranking junior to the First Preference Shares made at any time prior to or contemporaneously with any such redemption, purchase, reduction or other payment off), (i) unless all dividends, up to and including the dividend payable on the last preceding dividend payment date, on all the First Preference Shares then outstanding shall have been declared and paid or provided for, or (ii) if, after giving effect thereto, the aggregate amount of capital paid up on the Common Shares and any other shares of the Company ranking junior to the First Preference Shares plus the Consolidated Earned Surplus (both as at the date of such redemption, purchase, reduction or other payment off) would be less than the aggregate par value of all First Preference Shares then outstanding; or

(d) declare, pay or set apart any dividend on the Common Shares or any other shares of the Company ranking junior to the First Preference Shares unless all dividends, up to and including the dividend payable on the last preceding dividend payment date, on all the First Preference Shares then outstanding shall have been declared and paid or provided for.

(10) Sub-paragraphs (1) to (12) inclusive of these provisions may be deleted, varied, modified, amended or amplified only by a special resolution (within the meaning of the Act) confirmed by an order of the Supreme Court of Alberta with the authorization of the holders of the First Preference Shares, Series B given as specified in sub-paragraph (12) of these provisions.

(11) In sub-paragraphs (1) to (12) inclusive of these provisions the following terms shall have the following respective meanings and the word "Company" when used in this sub-paragraph (11) with respect to any date or period prior to the effective date of the Amalgamation shall mean N & C or, if prior to January 1, 1968, its predecessor Northern and Central Gas Company Limited:

(a) "subsidiary" means any corporation or company of which more than 50% of the outstanding voting shares are for the time being owned by or held for the Company and/or any subsidiary of the Company and includes any corporation or company in like relation to a subsidiary; "voting shares" as used in this definition means shares of any class carrying voting rights but shall not include shares of any class carrying limited voting rights or carrying voting rights by reason of the happening of any contingency whether or not such contingency shall have happened;

(b) "Consolidated Net Earnings" means all the gross earnings and income of the Company and its subsidiaries from all sources less all administrative, selling and operating charges and expenses of every character and all fixed charges of the Company and its subsidiaries (but excluding gains or losses on the disposal of investments and fixed assets) arrived at on a consolidated basis in accordance with generally accepted accounting practice, after making due allowance for minority interests, if any, and after proper allowance for depreciation, depletion, amortization and taxes (including income taxes); the net earnings of any subsidiary for the purpose of this definition shall only include the net earnings of such subsidiary from the date when such subsidiary became a subsidiary of the Company, subject as hereinafter provided; if, at the time of determining Consolidated Net Earnings for any past period, 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 other company already owned by the Company or a subsidiary to result in such other com-

pany becoming a subsidiary) and if the net proceeds of a then proposed issue of First Preference 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 which a resolution of the Directors shall be conclusive and binding), then the net earnings or net losses of such property or such other company for the same period (calculated in accordance with the provisions herein contained respecting Consolidated Net Earnings) 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 Consolidated Net Earnings; Consolidated Net Earnings shall (subject as hereinafter provided with respect to the determination of Consolidated Earned Surplus) be determined by the auditors of the Company whose determination shall be conclusive and binding on the Company and the holders of shares of every class;

(c) "Consolidated Earned Surplus" means the Consolidated Net Earnings of the Company and its subsidiaries since May 6, 1954, less all dividends declared and/or paid (other than in shares of the Company) on all shares of all classes of the Company and all items which in accordance with generally accepted accounting practice are properly chargeable to earned surplus, the whole as determined on a consolidated basis in accordance with generally accepted accounting practice; the Directors of the Company may from time to time determine the capital paid up on the Common Shares and any other shares of the Company ranking junior to the First Preference Shares and/or the Consolidated Earned Surplus as of a date not more than 120 days prior to the making of such determination and may determine such Consolidated Earned Surplus 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 upon 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 upon the last available unaudited consolidated balance sheet of the Company and its subsidiaries and/or the last available unaudited 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, provided that the Directors shall not make any such determination on the basis of any such balance sheet, statement, report or other data if to their knowledge any event has happened which would materially and adversely affect such capital paid up or such Consolidated Earned Surplus as determined on such basis; upon any determination having been made by the Directors under the foregoing provisions hereof, such capital paid up and/or the Consolidated Earned Surplus as at any date within a period of 120 days following the date as of which such determination is made shall (unless any further determination of such capital paid up and/or such Consolidated Earned Surplus is so made as of any later date within the said period) be conclusively deemed to be not less than the amount stated in such determination and such determination shall, subject as aforesaid, be conclusive and binding upon the Company and the shareholders of every class; notwithstanding the foregoing the Directors of the Company shall not take any action on the basis of any such determination if prior to the taking of such action any event has, to their knowledge, happened since the date on which such determination was made which would materially and adversely affect such capital paid up or such Consolidated Earned Surplus as so determined.

(12) Any authorization required to be given by the holders of the First Preference Shares, Series B hereunder shall be deemed to have been sufficiently given if contained in an instrument or instruments in writing signed by the holders of all the outstanding First Preference Shares, Series B or if it shall have been given by a resolution passed at a meeting of the holders of the First Preference Shares, Series B duly called for that purpose and held upon at least 21 days' notice at which the holders of at least a majority of the outstanding First Preference Shares, Series B are present or represented by proxy and carried by the affirmative vote of the holders of not less than three-fourths of the First Preference Shares, Series B represented and voted at such meeting cast on a poll; if at any such meeting the holders of a majority of the outstanding First Preference Shares, Series B are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than 21 days later and to such time and place as may be appointed by the chairman and not less than twenty-one 21 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 ad-

journing meeting the holders of First Preference Shares, Series B present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than three-fourths of the votes cast at such meeting shall constitute the authorization of the holders of the First Preference Shares, Series B referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the Articles of Association of the Company with respect to meetings of shareholders.

Junior Preference Shares

The Junior Preference Shares shall, as a class, have attached thereto the following rights, restrictions conditions and limitations:

(1) In addition to the first series of the Junior Preference Shares designated "\$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series" hereinafter referred to, the Junior Preference Shares may at any time or from time to time be issued in one or more series, each additional series to consist of such number of shares as may before the issue thereof be determined by the Directors of the Company; subject to sub-paragraph (2) of the provisions attaching to the Junior Preference Shares as a class, the Directors may by resolution fix at any time or from time to time before the issue thereof the designation, rights, restrictions, conditions and limitations attaching to the Junior Preference Shares of each additional series including, without limiting the generality of the foregoing, the rate of preferential dividends, the dates of payment thereof, any preference as to the repayment of capital upon dissolution, the redemption price and terms and conditions of redemption (if any), the conversion rights (if any) and any sinking fund or other provisions.

(2) The Junior Preference Shares of each series shall be entitled to a preference over the Common Shares of the Company with respect to the payment of dividends.

(3) The deletion or variation of any right, restriction, condition or limitation attaching to the Junior Preference Shares as a class or the creation of preference shares ranking in any respect in priority to or on a parity with the Junior Preference Shares must be authorized by at least three-fourths of the votes cast at a meeting of the holders of the Junior Preference Shares duly called for that purpose and held upon at least 21 days' notice at which the holders of at least a majority of the outstanding Junior Preference Shares are present or represented by proxy; if at any such meeting the holders of a majority of the outstanding Junior Preference Shares are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than 21 days later and to such time and place as may be appointed by the chairman, and not less than 21 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 the Junior Preference Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than three-fourths of the votes cast at such meeting shall constitute the authorization of the holders of the Junior Preference Shares referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the Articles of Association of the Company with respect to meetings of shareholders.

The first series of the Junior Preference Shares shall consist of 1,500,000 shares with a par value of \$25.00 each which shall be designated "\$1.50 Cumulative Redeemable Convertible Junior Preference Shares, First Series" (hereinafter called the "Junior Preference Shares, First Series"), and which, in addition to the rights, restrictions, conditions and limitations attaching to the Junior Preference Shares as a class, shall have attached thereto the following:

(1) The Junior Preference Shares, First Series shall rank junior to the First Preference Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, and shall be subject in all respects to any rights, restrictions, conditions and limitations which are attached to the First Preference Shares as a class and to each series of the First Preference Shares.

(2) The Company shall not declare or pay any dividends on the Common Shares or any other shares ranking junior in such respect to the Junior Preference Shares, First Series or redeem, purchase, reduce or otherwise pay off less than all of the Junior Preference Shares then outstanding unless all dividends, up

to and including the dividend payable on the last preceding dividend payment date, on all of the Junior Preference Shares, First Series then outstanding shall have been declared and paid or provided for.

(3) The holders of the Junior Preference Shares, First Series 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 \$1.50 per share per annum payable by quarterly instalments of $37\frac{1}{2}\text{¢}$ each on the last days of March, June, September and December in each year; such dividends shall accrue from the effective date of the Amalgamation; cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted) shall be issued in respect of such dividends and the mailing of such a cheque to any holder shall satisfy the dividend represented thereby unless the cheque be not paid on presentation; if on any dividend payment date the dividend payable on such date is not paid in full on all the Junior Preference Shares, First Series then outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the Directors on which the Company shall have sufficient moneys properly applicable to the payment of the same; the holders of the Junior Preference Shares, First Series shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for.

(4) In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Junior Preference Shares, First Series shall be entitled to receive an amount equal to the par value thereof, together with all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends thereon have been paid up to the date of distribution) and, if such liquidation, dissolution, winding-up or distribution be voluntary, an additional amount equal to a premium of \$1.25 per share if such event commences prior to June 30, 1977 or, if such event commences on or after June 30, 1977, an additional amount equal to the premium which would be payable as part of the redemption price of such Junior Preference Shares, First Series if such shares were to be redeemed in accordance with sub-paragraph (6) of these provisions at the date of commencement of such liquidation, dissolution, winding-up or distribution, before any amount shall be paid or any property or assets of the Company shall be distributed to the holders of the Common Shares or to the holders of any other class of shares ranking junior to the Junior Preference Shares, First Series in such respect; after payment to the holders of the Junior Preference Shares, First Series of the amount so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Company.

(5) Subject to the provisions of sub-paragraph (2) of these provisions, and to the Act, the Company may, in addition to its right to redeem Junior Preference Shares, First Series in the manner and on the terms provided in sub-paragraphs (6) and (7) below, at any time or times purchase (if obtainable) for cancellation all or any part of the Junior Preference Shares, First Series outstanding from time to time in the market (including purchase through or from an investment dealer or a firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the Junior Preference Shares, First Series outstanding at the lowest price or prices at which, in the opinion of the Directors, such shares are obtainable but not exceeding \$26.50 plus costs of purchase and all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of purchase); if upon any invitation for tenders under the provisions of this sub-paragraph (5) more Junior Preference Shares, First Series are tendered at a price or prices acceptable to the Company than the Company is willing to purchase, the Company will accept, to the extent required, the tenders submitted at the lowest price and then, if and as required, the tenders submitted at the next progressively higher prices and, if more shares are tendered at any such price than the Company is prepared to purchase, the shares tendered at that price will be purchased as nearly as may be pro rata (disregarding fractions) according to the number of Junior Preference Shares, First Series so tendered by each of the holders of Junior Preference Shares, First Series who submitted tenders at that price.

(6) The Company may not redeem the Junior Preference Shares, First Series or any of them prior to June 30, 1975; in addition, the Company may not redeem the Junior Preference Shares, First Series or any of them prior to June 30, 1977 unless (in the case of each such redemption) the Company shall have filed with the transfer agent of the Company for the Junior Preference Shares, First Series on the day that notice of such redemption is first given a certificate certifying that the weighted average price at which

the Common Shares of the Company have traded 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 by the Directors) during the 20 consecutive trading days ending on the fifth trading day preceding the date on which such notice of redemption is given, was not less than 125% of the Conversion Price (as defined in clause (a) of sub-paragraph (9) of these provisions) in effect on the date of the filing of such certificate; in addition, the Company may not redeem the Junior Preference Shares, First Series or any of them at any time if any part of the redemption price which constitutes a repayment of paid-up capital would for purposes of the Income Tax Act of Canada be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Company being less than the paid-up capital in respect of those shares so to be redeemed; subject to the foregoing and to the provisions of sub-paragraph (2) of these provisions, the Company may redeem at any time the whole or from time to time any part of the then outstanding Junior Preference Shares, First Series, on payment for each share to be redeemed of an amount equal to the par value thereof plus a premium calculated as a percentage of the par value thereof as follows:

5% if redeemed on or before June 30, 1982;

4% if redeemed thereafter and on or before June 30, 1984;

3% if redeemed thereafter and on or before June 30, 1986;

2% if redeemed thereafter and on or before June 30, 1988; and

1% if redeemed thereafter;

together in each case with all accrued and unpaid dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends have been paid up to the date of such redemption).

(7) In any case of redemption of Junior Preference Shares, First Series under the provisions of sub-paragraph (6) of these provisions, the Company shall, at least 30 days before the date specified for redemption, mail to each person who at the date of mailing is a registered holder of Junior Preference Shares, First Series to be redeemed a notice in writing of the intention of the Company to redeem such Junior Preference Shares, First Series; such notice shall be mailed in a prepaid letter 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 at the last known address of such shareholder, provided, however, that accidental failure or omission to give any such notice to one 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 Junior Preference Shares, First Series held by the person to whom such notice 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 Junior Preference Shares, First Series to be redeemed the redemption price on presentation and surrender at the registered office of the Company or any other place designated in such notice of the certificates representing the Junior Preference Shares, First Series so called for redemption; such payment shall be made by cheque payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted); if part only of the Junior Preference Shares, First Series represented by any certificate or certificates 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 Junior Preference Shares, First 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 and surrender of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected; the Company shall have the right at any time after the mailing of notice of its intention to redeem any Junior Preference Shares, First Series as aforesaid to deposit the redemption price of the Junior Preference Shares, First Series so called for redemption, or of such of the said shares represented by certificates as have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption, in a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such Junior Preference Shares, First Series called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same, and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the

Junior Preference Shares, First Series in respect whereof such deposit shall have been made shall be redeemed and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively; any interest allowed on any such deposit shall belong to the Company.

(8) The Junior Preference Shares, First Series which are purchased or redeemed in accordance with sub-paragraphs (5), (6) and (7) of these provisions shall be cancelled and shall not be reissued.

(9) (a) Upon and subject to the terms and conditions hereinafter set forth, the holders of Junior Preference Shares, First Series shall have the right (A) at any time up to the close of business on June 30, 1977 to convert fully-paid Junior Preference Shares, First Series into fully-paid and non-assessable Common Shares without par value of the Company at a price of \$14.50 per Common Share, being equivalent to approximately 1.72 Common Shares for each Junior Preference Share, First Series so converted, and (B) at any time thereafter up to the close of business on June 30, 1982 to convert fully-paid Junior Preference Shares, First Series into fully-paid and non-assessable Common Shares without par value of the Company at a price of \$16.00 per Common Share, being equivalent to approximately 1.56 Common Shares for each Junior Preference Share, First Series so converted; in sub-paragraphs (6) and (9) of these provisions, the "Conversion Price" per Common Share in effect at any date shall be deemed to be whichever one of the foregoing prices is applicable as adjusted to such date in accordance with clause (i) of this sub-paragraph (9), provided that, for the purpose of adjustments in accordance with the said clause (i) of the price referred to in sub-clause (B) of this clause (a), such price shall be deemed to be the applicable price prior to the close of business on June 30, 1977.

(b) The conversion privilege herein provided for may be exercised by notice in writing given to the transfer agent of the Company for the Junior Preference Shares, First Series at any office for the transfer of Junior Preference Shares, First Series, accompanied by the certificate or certificates representing Junior Preference Shares, First Series in respect of which the holder thereof desires to exercise such right of conversion; such notice shall be signed by such holder or his agent and shall specify the number of Junior Preference Shares, First Series which the holder desires to have converted; if less than all the Junior Preference Shares, First Series 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 Junior Preference Shares, First Series comprised in the certificate or certificates surrendered as aforesaid which are not to be converted

(c) Subject to the provisions of clause (i) of this sub-paragraph (9), upon the conversion of any Junior Preference Shares, First Series, there shall be no payment or adjustment by the Company or by any holder of Junior Preference Shares, First Series on account of any dividends either on the Junior Preference Shares, First Series so converted or on the Common Shares resulting from such conversion.

(d) In the case of any Junior Preference Shares, First Series which are called for redemption, the right of conversion thereof shall, notwithstanding anything herein contained, cease and terminate at the close of business on the tenth day prior to the date fixed for redemption, provided, however, that if the Company shall fail to redeem such Junior Preference Shares, First Series in accordance with the notice of redemption the right of conversion shall thereupon be restored.

(e) On any conversion of Junior Preference Shares, First Series, the share certificates representing Common Shares of the Company resulting therefrom shall be issued in the name of the registered holder of the Junior Preference Shares, First Series converted or in such name or names as such registered holder may direct in writing (either in the notice referred to in clause (b) of this sub-paragraph (9) or otherwise), provided that such registered holder shall pay any applicable security transfer taxes.

(f) The right of a registered holder of Junior Preference Shares, First Series to convert the same into Common Shares shall be deemed to have been exercised, and the registered holder of Junior Preference Shares, First Series to be converted (or any person or persons in whose name or names such registered holder of Junior Preference Shares, First Series shall have directed certificates representing Common Shares to be issued as provided in clause (e) of this sub-paragraph (9), shall be deemed to have become a holder of Common Shares of record of the Company, for all purposes on the respective

dates of surrender of the certificates representing the Junior Preference Shares, First Series to be converted accompanied by notice in writing as referred to in clause (b) of this sub-paragraph (9), notwithstanding any delay in the delivery of the certificates representing the Common Shares into which such Junior Preference Shares, First Series have been converted.

(g) (A) The Company shall not issue fractional shares upon any conversion of Junior Preference Shares, First Series. If a fractional interest in a Common Share would, except for the provisions of this clause (g), be issuable upon conversion of a Junior Preference Share, First Series, the Company shall issue a bearer non-voting and non-dividend-bearing scrip certificate of the Company in respect of such fractional interest, which certificate, when surrendered within two years from the date of issuance thereof to a transfer agent for the Company's Common Shares (hereafter in this clause (g) called the "Scrip Agent") at any office for the transfer of such Common Shares (hereafter in this clause (g) called the "Scrip Office"), together with similar scrip certificates (issued not more than two years prior to the date of surrender) representing in the aggregate the right to receive at least one whole Common Share, shall be exchangeable for a share certificate or certificates for the full number of fully-paid and non-assessable Common Shares called for by all the scrip certificates so surrendered and a new scrip certificate in respect of any remaining fractional interest in a Common Share called for thereby.

(B) The Common Shares of the Company underlying the total number of scrip certificates to which persons become entitled as aforesaid shall be issued to the Scrip Agent(s) and all dividends received by the Scrip Agent(s) upon the underlying Common Shares shall be held in trust by the Scrip Agent(s) for the holders of the outstanding scrip certificates. Upon presentation of a scrip certificate at a Scrip Office, the holder thereof shall be entitled to receive payment of his proportionate share of all dividends (less any applicable withholding tax) received by the Scrip Agent(s) as aforesaid.

(C) If any scrip certificates are outstanding at the expiration of two years from the date of issuance thereof, the underlying Common Shares of the Company shall be sold by the Scrip Agent(s) on behalf of the holders of such scrip certificates in such manner and at such price and on such other terms and at such time or times as the Scrip Agent(s) may determine, and the proceeds of such sale and all dividends received by the Scrip Agent(s) upon the shares so sold shall be held in trust by the Scrip Agent(s) for such holders and shall be distributed pro rata (less any applicable withholding tax) to the holders of scrip certificates upon the surrender thereof at the Scrip Offices.

(D) Dividends paid to Scrip Agent(s) on the Common Shares of the Company underlying outstanding scrip certificates and the proceeds of sale of such shares may be invested by the Scrip Agent(s) as the Scrip Agent(s) may determine, and any charges of the Scrip Agent(s) in respect thereof shall be charged to and paid out of the income arising from such investment.

(h) The Company shall reserve, set aside and hold out of its authorized capital a sufficient number of unissued Common Shares to enable all of the Junior Preference Shares, First Series outstanding from time to time to be converted upon the basis and upon the terms and conditions herein provided. All shares resulting from any conversion of Junior Preference Shares, First Series into Common Shares (including whole Common Shares resulting from the consolidation by the Company of fractions of shares which result from conversions) shall be deemed to be fully-paid and non-assessable. Nothing herein contained shall affect or restrict the right of the Company to increase the number of its authorized Common Shares in accordance with the provisions of the Act and to issue such shares from time to time.

(i) The Conversion Price per Common Share in effect at any date shall be subject to adjustment from time to time as follows:

(A) In case the Company shall (i) declare a dividend or make a distribution on its outstanding Common Shares payable in Common Shares, (ii) subdivide its outstanding Common Shares into a greater number of shares, or (iii) consolidate its outstanding Common Shares into a smaller number of shares, the Conversion Price in effect at the record date for such dividend or distribution or the effective date of such subdivision or consolidation shall be proportionately

adjusted; such adjustment shall be made successively whenever any event referred to in this sub-clause (A) shall occur; any such dividend or distribution on the outstanding Common Shares of the Company payable in Common Shares shall be deemed to have been paid or made on the record date for such dividend or distribution for purposes of calculating the number of outstanding Common Shares under sub-clauses (B) and (C) of this clause (i).

(B) In case the Company shall fix a record date for the issuance of rights or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring within 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion price per share) less than the Current Market Price (as defined in sub-clause (D) of this clause (i)) of a Common Share on such record date, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the 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 of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion price of the convertible securities so offered) by such Current Market Price per Common Share, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase (or into which the convertible securities so offered are convertible); any Common Shares owned by or held for the account of the Company shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that such rights or warrants are not so issued or such rights or warrants are not exercised prior to the expiration thereof, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect if such record date had not been fixed, or to the Conversion Price which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually delivered upon the exercise of such rights or warrants, as the case may be.

(C) In case the Company shall fix a record date for the making of a distribution to all or substantially all the holders of its outstanding Common Shares of (i) shares of any class other than Common Shares or (ii) rights or warrants (excluding those referred to in sub-clause (B) of this clause (i)) or (iii) evidences of its indebtedness or (iv) assets (excluding cash dividends or distributions, and dividends or distributions referred to in sub-clause (A) of this clause (i)), then in each such case the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding multiplied by the Current Market Price per Common Share on such record date, less the fair market value (as determined by the Directors, whose determination shall be conclusive) of such shares or rights or warrants or evidences of indebtedness or assets so distributed, and of which the denominator shall be the total number of Common Shares outstanding multiplied by such Current Market Price per Common Share; any Common Shares owned by or held for the account of the Company shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that such distribution is not so made, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect based upon such shares or rights or warrants or evidences of indebtedness or assets actually distributed.

(D) For the purpose of any computation under sub-clauses (B) and (C) of this clause (i), the "Current Market Price" per Common Share at any date shall be deemed to be the weighted average price at which the Common Shares of the Company have traded 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) during the 30 consecutive trading days commencing 45 trading days before such date.

(E) In any case in which this clause (i) shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Company may defer until the occurrence of such event issuing to the holder of any Junior Preference Shares, First Series

converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event in addition to the Common Shares issuable upon such conversion before giving effect to such adjustment, provided, however, that the Company shall deliver to such holder an appropriate instrument evidencing such holder's rights to receive such additional Common Shares upon the occurrence of the event requiring such adjustment.

(F) In the case of any reclassification of, or other change in, the outstanding Common Shares of the Company other than a subdivision or consolidation, the Conversion Price shall be adjusted in such manner as the Directors determine to be appropriate.

(G) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one per cent in such price, provided, however, that any adjustments which by reason of this sub-clause (G) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(H) If any question shall at any time arise with respect to adjustments in the amount of the Conversion Price, such questions 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.

(j) Upon any adjustment of the Conversion Price pursuant to clause (i) of this sub-paragraph (9), the number of Common Shares into which Junior Preference Shares, First Series may be converted shall be adjusted accordingly.

(k) Forthwith after the occurrence of any adjustment in the Conversion Price pursuant to clause (i) of this sub-paragraph (9), the Company shall file with the transfer agent of the Company for the Junior Preference Shares, First Series 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 Junior Preference Shares, First Series of the Conversion Price following such adjustment and the provisions of sub-paragraph (7) of these provisions with respect to the giving of notice of redemption shall apply mutatis mutandis to the giving of such notice.

(l) If the Company intends to fix a record date for any event referred to in sub-clauses (B) and (C) of clause (i) of this sub-paragraph (9), the Company shall, at least 14 days prior to such record date, notify the registered holders of Junior Preference Shares, First Series of such intention by written notice setting forth the particulars thereof to the extent that such particulars have been determined at the time of giving the notice; the provisions of sub-paragraph (7) of these provisions with respect to the giving of notice of redemption shall apply mutatis mutandis to the giving of notice under this clause (l).

(10) The Company shall not without, but may from time to time with, the authorization of the holders of the Junior Preference Shares as a class given as specified in sub-paragraph (12) of these provisions increase the authorized amount of the Junior Preference Shares or create, increase the authorized amount of, or issue any shares (other than, subject as aforesaid, Junior Preference Shares and other than First Preference Shares or, in the event that the First Preference Shares or shares of any other class of preference shares that the Directors have determined shall be the senior class of shares of the Company are no longer authorized or will be no longer authorized within 35 days thereafter, shares of any class of preference shares that the Directors have determined shall be the senior class of shares of the Company) ranking in priority to or on a parity with the Junior Preference Shares, First Series in respect of the payment of dividends or in respect of the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

(11) Sub-paragraphs (1) to (12) inclusive of these provisions may be deleted, varied or amplified only by a special resolution (within the meaning of the Act) confirmed by an order of the Supreme Court of Alberta with the authorization of the holders of the Junior Preference Shares, First Series given as specified in sub-paragraph (12) of these provisions.

(12) Any authorization required to be given hereunder by the holders of the Junior Preference Shares, First Series shall be deemed to be sufficiently given if contained in an instrument or instruments in writing

signed by the holders of not less than three-fourths of the outstanding Junior Preference Shares, First Series or if given by a resolution passed at a meeting of the holders of the Junior Preference Shares, First Series duly called for that purpose and held upon at least 21 days' notice at which the holders of at least a majority of the outstanding Junior Preference Shares, First Series are present or represented by proxy and carried by at least three-fourths of the votes cast thereon at the meeting; if at any such meeting the holders of a majority of the outstanding Junior Preference Shares, First Series are not present or represented by proxy within one-half hour after the time appointed for such meeting, then the meeting shall be adjourned to such date being not less than 21 days later and to such time and place as may be appointed by the chairman, and not less than 21 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 Junior Preference Shares, First Series present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than three-fourths of the votes cast at such meeting shall constitute the authorization of the holders of the Junior Preference Shares, First Series referred to above; the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed by the Articles of Association of the Company with respect to meetings of shareholders; the foregoing provisions of this sub-paragraph (12) shall apply mutatis mutandis to any authorization required to be given hereunder by the holders of the Junior Preference Shares as a class.

8. The manner of converting the issued capital and the authorized but unissued capital of Cigol and of Newco into that of the Company shall be as follows:

- (a) each outstanding \$1.06 Cumulative Redeemable First Preference Share, Series A of Newco shall be converted into one fully-paid and non-assessable First Preference Share, Series A, of the Company;
- (b) each outstanding \$1.50 Cumulative Redeemable Convertible First Preference Share, Series B of Newco shall be converted into one fully-paid and non-assessable First Preference Share, Series B, of the Company;
- (c) each outstanding \$1.50 Cumulative Redeemable Convertible Junior Preference Share, First Series of Newco shall be converted into one fully-paid and non-assessable Junior Preference Share, First Series of the Company;
- (d) each outstanding Common Share of Newco shall be converted into one fully-paid and non-assessable Common Share of the Company;
- (e) every ten outstanding Common Shares of Cigol, other than the Common Shares of Cigol to be held by Newco upon the Arrangement becoming effective, shall be converted into seven fully-paid and non-assessable Common Shares of the Company;
- (f) the Common Shares of Cigol to be held by Newco upon the Arrangement becoming effective shall be cancelled; and
- (g) all authorized but unissued shares of Cigol and of Newco shall be converted into authorized but unissued Common Shares of the Company.

In the event that the aggregate paid-up capital of the Company attributable to the First Preference Shares and Junior Preference Shares of the Company immediately following the Amalgamation shall be in excess of the paid-up capital of Newco attributable to the First Preference Shares and Junior Preference Shares of Newco immediately prior to the Amalgamation, the amount paid up on the Common Shares of the Company immediately following the Amalgamation shall be deemed to be an amount equal to the amount otherwise determinable as the amount paid up on the Common Shares of the Company immediately following the Amalgamation less such excess.

9. The manner of converting rights under outstanding scrip certificates to receive certificates for Common Shares of Cigol and of Newco into similar rights to receive certificates for Common Shares of the Company shall be as follows:

- (a) each outstanding right under a scrip certificate to receive a certificate for a Common Share of Cigol exercisable only when combined with similar rights aggregating a whole number shall be converted into

a right to receive a certificate for a fully-paid and non-assessable Common Share of the Company exercisable only when combined with similar rights aggregating a whole number equal to the product obtained by multiplying:

- (i) the part of a Common Share of Cigol underlying such right, by
- (ii) a fraction of which the numerator is seven and the denominator is ten; and

(b) each outstanding right under a scrip certificate to receive a certificate for a Common Share of Newco exercisable only when combined with similar rights aggregating a whole number shall be converted into the same right to receive a certificate for a fully-paid and non-assessable Common Share of the Company.

The above-mentioned rights to receive certificates for Common Shares of the Company shall be evidenced by bearer non-voting and non-dividend-bearing scrip certificates of the Company which shall be subject mutatis mutandis to the terms and conditions contained in paragraph 10 hereof.

10. (a) The Company shall not issue fractional shares upon the conversion of the issued capital of Cigol into that of the Company pursuant to paragraph 8 hereof. If a fractional interest in a Common Share of the Company would, except for the provisions of this paragraph, be issuable upon such conversion, the Company shall issue a bearer non-voting and non-dividend-bearing scrip certificate of the Company in respect of such fractional interest, which certificate, when surrendered on or before December 31, 1977 to a transfer agent for the Company's Common Shares (hereafter in this paragraph called the "Scrip Agent") at any office for the transfer of such Common Shares (hereafter in this paragraph called the "Scrip Office"), together with similar scrip certificates representing in the aggregate the right to receive at least one whole Common Share, shall be exchangeable for a share certificate or certificates for the full number of fully-paid and non-assessable Common Shares called for by all the scrip certificates so surrendered and a new scrip certificate in respect of any remaining fractional interest in a Common Share called for thereby.

(b) The Common Shares of the Company underlying the total number of scrip certificates to which persons become entitled as aforesaid shall be issued to the Scrip Agent(s) and all dividends received by the Scrip Agent(s) upon the underlying Common Shares shall be held in trust by the Scrip Agent(s) for the holders of the outstanding scrip certificates. Upon presentation of a scrip certificate at a Scrip Office, the holder thereof shall be entitled to receive payment of his proportionate share of all dividends (less any applicable withholding tax) received by the Scrip Agent(s) as aforesaid.

(c) After December 31, 1977 the remaining underlying Common Shares of the Company shall be sold by the Scrip Agent(s) on behalf of the holders of the scrip certificates then outstanding in such manner and at such price and on such other terms and at such time or times as the Scrip Agent(s) may determine, and the proceeds of such sale and all dividends received by the Scrip Agent(s) upon the shares so sold shall be held in trust by the Scrip Agent(s) for such holders and shall be distributed pro rata (less any applicable withholding tax) to the holders of scrip certificates upon the surrender thereof at the Scrip Offices.

(d) Dividends paid to Scrip Agent(s) on the Common Shares of the Company underlying outstanding scrip certificates and the proceeds of sale of such shares may be invested by the Scrip Agent(s) as the Scrip Agent(s) may determine, and any charges of the Scrip Agent(s) in respect thereof shall be charged to and paid out of the income arising from such investment.

11. Upon the completion of the Amalgamation and the issuance by the Alberta Registrar of Companies of a Certificate of Amalgamation, each holder of shares or scrip certificates of Cigol and Newco, when requested by the Company, shall surrender to the Company or a transfer agent his share certificates or scrip certificates, as the case may be, and in return shall be entitled to receive share certificates or scrip certificates of the Company on the basis stipulated in paragraphs 8, 9 and 10.

12. The Amalgamation shall not become effective unless and until each of the following conditions has been satisfied:

(a) this Agreement shall have been adopted, with or without variation, by Cigol and Newco in accordance with the Act at shareholders' meetings duly called and held for the purpose of considering the same;

(b) the Supreme Court of Alberta shall have made an order approving this Agreement (following written approval hereof by the Registrar of Companies of Alberta) without imposing any term or condition which,

(i) in the opinion of the Directors of Cigol, would be unduly detrimental to the interests of Cigol, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation, or

(ii) in the opinion of the Directors of Newco, would be unduly detrimental to the interests of Newco, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation,

and the time limited for any appeal from such order shall have expired without an appeal having been taken or, if any appeal is taken, such appeal shall have been finally disposed of upholding the order;

(c) the Public Utilities Board of Alberta shall have approved, by final order, the Amalgamation and transactions pursuant thereto in accordance with the provisions of The Gas Utilities Act of Alberta without imposing any term or condition which,

(i) in the opinion of the Directors of Cigol, would be unduly detrimental to the interests of Cigol, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation, or

(ii) in the opinion of the Directors of Newco, would be unduly detrimental to the interests of Newco, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation;

(d) Cigol and Newco shall each have received rulings from tax authorities or legal opinions as to the Canadian tax consequences of the Amalgamation in form satisfactory to the respective Directors of Cigol and Newco;

(e) A registration statement under the United States Securities Act of 1933 covering certain shares of the Company shall have become effective and no stop order shall be outstanding in respect thereof;

(f) Cigol, Newco and N & C shall have refrained after the date of this Agreement, without the prior approval of the Directors of each of Cigol and Newco, from:

(i) declaring any extraordinary dividend;

(ii) declaring or paying any dividend in shares;

(iii) making any capital distribution; or

(iv) issuing or agreeing to issue any shares, or options or warrants for the purchase of shares, except pursuant to rights outstanding at the date hereof to acquire such shares, options or warrants, except as contemplated by the Arrangement, and except for an agreement by Newco with N & C with respect to the issuance of share purchase warrants of the Company in exchange for outstanding share purchase warrants of N & C; and

(g) N & C shall have obtained from the Minister of Consumer and Commercial Relations of Ontario a certificate making the Arrangement effective, provided that, in approving the Arrangement, no term or condition shall have been imposed by the Supreme Court of Ontario, the Lieutenant-Governor in Council of Ontario or the Public Utilities Board of Alberta which,

(i) in the opinion of the Directors of Cigol, would be unduly detrimental to the interests of Cigol, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation, or

(ii) in the opinion of the Directors of Newco, would be unduly detrimental to the interests of Newco, or its shareholders or creditors, or to the interests of the Company, or its shareholders or creditors, after the Amalgamation.

13. The Company shall possess all the property, rights, privileges and franchises and shall be subject to all the liabilities, contracts and debts of Cigol and of Newco, and all of the provisions of this Agreement respecting the name of the Company, its capital and its objects shall be deemed to constitute the Memorandum of Association of the Company.

14. The Articles of Association of the Company shall be in the form of the Articles of Association annexed hereto as Exhibit II, and the said Articles are hereby adopted as the Articles of Association of the Company.

15. No action or proceedings by or against Cigol or Newco shall abate or be affected by the Amalgamation, but for all purposes of such action or proceedings the name of the Company shall be substituted in such action or proceedings in the place of Cigol or Newco.

16. The liability of the shareholders of the Company shall be limited to the amount, if any, unpaid on their shares.

17. The books, records and files of each party hereto shall be made available for the inspection and audit of the officers and agents of the other party hereto and all of the properties and assets of each party hereto may be inspected by the officers and agents of the other party hereto and full information concerning the affairs of each party hereto shall be given by such party to the officers or agents of the other party hereto upon its request.

18. Cigol and Newco may, by resolution of their respective Directors either before or after this Agreement has been adopted by shareholders as contemplated by sub-paragraph (a) of paragraph 12 hereof, assent to any alteration or modification of this Agreement which the Registrar of Companies of Alberta, the Supreme Court of Alberta, or the Public Utilities Board of the Province of Alberta may require.

19. The Directors of Cigol and the Directors of Newco shall take all such steps as may be necessary in order that the Amalgamation shall become effective on the day on which the last of the conditions contained in paragraph 12 hereof to be satisfied shall have been satisfied. Prior to the issue of a certificate of amalgamation by the Registrar of Companies of Alberta, Cigol and Newco shall confirm in writing to the Registrar that all of the conditions contained in paragraph 12 hereof have been satisfied, and the issuance of such certificate of amalgamation shall be deemed to be conclusive proof as to the satisfaction of such conditions.

20. In the event that a certificate of amalgamation has not been issued by the Registrar of Companies of Alberta by December 31, 1975, or by such later date, if any, as the shareholders of the parties hereto may from time to time approve by three-fourths of the votes cast at a meeting or meetings of the shareholders of each of the parties called for the purpose of considering a date extension, this Agreement and the rights and obligations of the parties shall terminate on December 31, 1975 or such later date, as the case may be.

21. Time shall be of the essence of this Agreement.

IN WITNESS WHEREOF this Agreement has been duly executed by the parties hereto under their respective corporate seals as witnessed by the signatures of their respective proper officers in that behalf.

CANADIAN INDUSTRIAL GAS & OIL LTD.

per: "Edward A. Galvin"
Chairman of the Board and President

(corporate seal)

per: "Richey B. Love"
Director

NEWCO LTD.

per: "Edmund C. Bovey"
President

(corporate seal)

per: "Edward G. Battle"
Director

EXHIBIT I TO SCHEDULE C

[See Schedule A to this Information Circular and Proxy Statement.]

EXHIBIT II TO SCHEDULE C

ARTICLES OF ASSOCIATION OF NORCEN ENERGY RESOURCES LIMITED

INTERPRETATION

1. In these Articles, unless the context otherwise requires,
 - (a) the following terms shall have the meanings specified:
 - (i) "Act" means The Companies Act of Alberta as from time to time amended, or any statute that may be substituted therefor as from time to time amended;
 - (ii) "annual meeting" means the annual meeting of shareholders referred to in Article 4;
 - (iii) "board" means the board of directors of the Company;
 - (iv) "Company" means Norcen Energy Resources Limited;
 - (v) "director" means a member of the board;
 - (vi) "meeting of shareholders" means an annual meeting and/or a special meeting of shareholders;
 - (vii) "Memorandum" means the provisions of the amalgamation agreement between Canadian Industrial Gas & Oil Ltd. and Newco Ltd. dated as of December 11, 1974, respecting the name of the Company, its capital and its objects, as from time to time amended;
 - (viii) "shareholder" includes a "member" as that term is defined in the Act; and
 - (ix) "special meeting of shareholders" means any meeting of shareholders of the Company other than an annual meeting and includes a meeting of any class or series of any class of shareholders;
 - (b) terms that are also used in the Act shall have the meanings given to such terms in the Act; and
 - (c) words importing the singular number shall include the plural number and vice versa, words importing the masculine gender shall include the feminine and neuter genders, and words importing persons shall include individuals, bodies corporate, trusts and unincorporated associations.

TABLE A

2. The regulations contained in Table "A" in the First Schedule to the Act are hereby excluded and shall not apply to the Company.

REGISTERED OFFICE

3. The registered office of the Company shall be in the City of Calgary, in the Province of Alberta, and at such location within the Province as the board may from time to time determine.

SHAREHOLDERS

4. **Annual meeting**—A meeting of shareholders of the Company shall be held annually, at such time and at such place, either within or without the Province of Alberta, as the board, the chairman of the board or the president may determine, for the purposes of receiving the Company's financial statements (together with the report thereon of the Company's auditor) for the last completed fiscal period of the Company, electing directors for the ensuing year, appointing the auditor for the ensuing year and fixing, or authorizing the board to fix, his remuneration, and for the transaction of such other business as may properly be brought before the meeting.
5. **Annual financial statements**—Twenty-one days or more before each annual meeting, the financial statements to be placed before such annual meeting, together with the report thereon of the Company's auditor, shall be sent to each shareholder. The board may fix in advance of each annual meeting a time as the record date for the determination of the shareholders entitled to receive the financial statements to be placed before the annual meeting.

6. **Special meeting**—In addition to the provisions of the Act in this regard, a special meeting of shareholders may be held at any time upon call by the board, the chairman of the board or the president. Any such meeting shall be held at such place, either within or without the Province of Alberta, as may be determined by the board or the officer calling the meeting.

7. **Notice of meeting**—Notice of the time and place of every meeting of shareholders shall be given, not less than 21 days nor more than 50 days before the date of the meeting, to each shareholder holding one or more shares of the Company carrying the right to vote at the meeting, to each director, and to the Company's auditor. The board may fix in advance of any meeting of shareholders a time as the record date for the determination of the shareholders entitled to receive notice of the meeting. A meeting of shareholders may be held at any time without notice if all the shareholders entitled to vote thereat are present in person or represented by proxy or those not so present or represented waive notice of or otherwise consent to the holding of such meeting, and if the auditor is present or waives notice of or otherwise consents to the holding of the meeting. It shall not be necessary to give notice of any adjourned meeting of shareholders.

8. **Persons entitled to be present at meeting**—The only persons entitled to attend a meeting of shareholders shall be those persons entitled to vote thereat, the directors, the Company's auditor, and any other persons who, although not entitled to vote at the meeting, are entitled or required to attend the meeting under any provisions of the Act, the Memorandum or these Articles. Any other person may be admitted to the meeting only on the invitation of the chairman of the meeting or with the consent of the meeting.

9. **Quorum**—At any meeting of shareholders, a quorum shall consist of at least two persons holding or representing by proxy not less than 25% of all the shares of the Company enjoying voting rights at the meeting.

10. **Right to vote**—At any meeting of shareholders, every person shall be entitled to vote in respect of any question who, at the time of taking the vote in respect thereof (or at the record date for voting if such a date has been fixed), is entered in the Company's records as the holder of one or more shares carrying the right to vote at the meeting. The board may fix in advance of any such meeting a time as the record date for the determination of the shareholders entitled to vote at the meeting, provided that such time shall be not more than 48 hours (excluding any part of a Saturday or holiday) before the time of the meeting. Upon filing proof of his appointment reasonably sufficient to the secretary of a meeting of shareholders, a person who holds shares as an executor, administrator, guardian, tutor, trustee, receiver, liquidator, or committee of or curator to a mentally incompetent person, or another person appointed by proxy to represent him at the meeting, shall be entitled to vote in respect of such shares at the meeting. Where two or more persons hold the same shares jointly, any one of such persons present in person or represented by proxy at a meeting of shareholders shall be entitled in the absence of the other or others to vote in respect of such shares, but, if more than one of such persons are present or represented by proxy at the meeting and vote, they shall vote together as one in respect of such shares.

11. **Proxies**—Subject to the provisions of the Act, every person entitled to vote at a meeting of shareholders may appoint, by means of a proxy, another person, who need not be a shareholder, as his nominee to vote on his behalf and otherwise represent him at the meeting.

12. **Show of hands**—Subject to the requirements of the Act, every question at a meeting of shareholders, including an election or appointment, shall be decided by a show of hands unless a poll is required by the chairman of the meeting or is demanded by any person who is present and entitled to vote at the meeting. Upon a show of hands every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands has been taken on a question, unless a poll thereon is so required or demanded a declaration by the chairman of the meeting that the vote upon the question has been carried, or has been carried by a particular majority, or has not been carried, and an entry to that effect in the minutes of the meeting, shall be prima facie evidence of the fact without proof of the number or proportion of the votes cast in favour of or against any resolution or other proceeding in respect of such question, and the result of the vote so taken shall be the decision of the shareholders upon such question.

13. **Poll**—Whether or not a show of hands has been taken on any question at a meeting of shareholders, the chairman of the meeting may require, or any person who is present and entitled to vote at the meeting may demand, a poll on the question. A poll so required or demanded shall be taken in such manner as the chairman of the meeting may direct. Upon a poll each person who is present and entitled to vote at the

meeting shall have, in respect of the shares which he is entitled to vote at the meeting, that number of votes provided by the Act, the Memorandum, these Articles, or resolutions of the board or of the shareholders creating the shares, and the result of the vote so taken shall be the decision of the shareholders upon the question.

14. Votes to govern—Unless otherwise required by the Act, the Memorandum or these Articles, every question at a meeting of shareholders shall be decided by a majority of the votes cast on the question.

15. Casting vote—In the event of an equality of votes on any question at a meeting of shareholders either upon a show of hands or upon a poll, the chairman of the meeting shall be entitled to a second or casting vote.

16. Scrutineers—At any meeting of shareholders one or more scrutineers may be appointed to serve at the meeting either by a resolution of the meeting or by the chairman. No such scrutineer need be a shareholder of the Company.

DIRECTORS

17. Powers and duties of board—The board shall manage or supervise the management of the affairs and business of the Company, and, in addition to the powers by these Articles or otherwise expressly conferred upon it, may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not by these Articles or by the Act or other statute expressly required to be exercised or done by the shareholders. Without restricting the generality of the foregoing, the board may from time to time in its discretion (i) raise or borrow money for the purposes of the Company's business, (ii) issue bonds, debentures or other securities payable to bearer or otherwise, at a discount, premium or otherwise, or upon such other terms and conditions and in such manner as the board shall consider to be for the benefit of the Company, (iii) guarantee the performance or fulfilment of any contracts or obligations or the payment of the principal of and interest on securities, mortgages and liabilities of any person or corporation with whom or which the Company may have business relations or any of whose shares, securities or other obligations are held by the Company, and (iv) secure any or all of the foregoing by mortgage or charge upon the undertaking and the whole or any part of the assets or the property of the Company (present and future) including its unissued capital.

18. Number of directors—The board shall have not less than 12 members nor more than 18 members, provided, however, that the shareholders may, by a resolution carried by at least two-thirds of the votes cast at a meeting of shareholders, increase or reduce the maximum or minimum number of directors and may at such meeting elect directors to fill any vacancies resulting from any such increase. Two-fifths of the members of the board shall constitute a quorum at any meeting. Notwithstanding any vacancies, the remaining directors may exercise all the powers of the board so long as a quorum of the board remains in office.

19. Qualifications of directors—No person shall be qualified to be elected or appointed a director of the Company before he has attained the age of 18 years or after he has attained the age of 70 years. No undischarged bankrupt or mentally incompetent person shall be qualified to be elected or appointed a director and, if a person who has been elected or appointed a director becomes bankrupt or mentally incompetent, he shall thereupon cease to be a director.

20. Election and term—The directors shall be elected at each annual meeting to hold office until the next annual meeting or until their respective successors are elected or appointed. At any annual meeting every retiring director shall, if qualified, be eligible for re-election, and, subject to Article 18, the number of directors to be elected annually shall be the number existing immediately prior to such meeting or such other number as is approved by ordinary resolution at such meeting.

21. Resignation of directors—A director may resign his office by giving notice of his resignation to the secretary of the Company and such resignation shall be effective upon receipt thereof by the secretary or upon such later date as may be specified in the notice.

22. Removal of directors—The shareholders may, at a special meeting of shareholders, remove any director before the expiration of his term of office and elect any qualified person in his place for the remainder of his term.

23. Vacancies and additions—Subject to Article 22, if a vacancy shall occur in the board between annual meetings otherwise than as a result of an increase in the number of directors, the remaining directors, if constituting a quorum, may appoint a qualified person to fill the vacancy for the remainder of the term. If the remaining directors do not constitute a quorum, they shall forthwith call a meeting of shareholders to fill the vacancy. The directors shall have power from time to time to appoint any other qualified person

as an addition or additions to the board, but the total number of directors shall not exceed the maximum number applicable under Article 18 from time to time.

24. Calling of meeting—A meeting of the board may be held at any time upon call by the chairman of the board, the vice-chairman of the board, the president or any two directors. Each meeting of the board shall be held at such place, either within or without the Province of Alberta, as may be determined by the person or persons calling the meeting. Notice of each such meeting shall be given to every director not less than 48 hours before the time at which the meeting is to be held, provided that no notice of a meeting shall be necessary if all the directors are present or if those absent waive notice of or otherwise consent to the holding of the meeting.

25. Meetings by telephone—Any director may participate in a meeting of the board or any committee of the board by means of conference telephone or other communications equipment by which all persons participating in the meeting can hear each other, and a director participating in a meeting pursuant to this Article shall be deemed to be present in person at that meeting.

26. Resolutions in writing—A resolution in writing, signed by all of the directors without their meeting together (which resolution may be executed in several counterparts), shall be as valid and effectual as if it had been passed at a meeting of the board held for such purpose, and shall be effective as of the date upon which such resolution was signed by the last of the directors to sign the resolution.

27. First meeting of new board—Each newly-elected board may, without notice, hold its first meeting for the purpose of organization and the election and appointment of officers immediately following the meeting of shareholders at which the members of the board were elected, provided that a quorum is present.

28. Votes to govern—Every question at a meeting of the board shall be decided by a majority of the votes cast on the question.

29. Casting vote—In the event of an equality of the votes on any question at a meeting of the board, the chairman of the meeting shall be entitled to a second or casting vote.

30. Validity of acts of directors—All acts done by any person acting as a director shall, notwithstanding that it shall thereafter be discovered that there was some defect in the election, appointment or qualification of such person as a director, be as valid as if such person had been duly elected, appointed or qualified to be a director, as the case may be.

31. Remuneration and expenses—Each director shall be remunerated for his services as a director at such rate as the board may from time to time determine. In addition, each director shall be paid such sums in respect of the out-of-pocket expenses incurred by him in attending meetings of the board, meetings of any committee of the board of which he is a member, or meetings of shareholders, or otherwise incurred by him in connection with the performance of his duties as a director, as the board may from time to time determine. Nothing herein contained shall preclude any director from receiving remuneration for serving the Company as an officer or employee or in any other capacity.

32. Interest of director in contract—Subject to the provisions of the Act, it shall be the duty of every director of the Company who has, directly or indirectly, any interest in any contract or transaction to which the Company or a subsidiary is or is to be a party to disclose his interest in such contract or transaction at a meeting of the board in accordance with the requirements of the Act and to refrain from voting in respect thereof at any meeting of the board. No director shall be disqualified by his office from serving the Company as an officer or employee or in any other capacity or from serving any affiliated corporation in any such capacity or from contracting with the Company or any affiliated corporation, nor shall any contract or transaction entered into by the Company or an affiliated corporation in which any director shall be in any way interested either personally or as a member of a firm or other association or as a shareholder or director of another corporation or in any other manner whatsoever be avoided, nor shall any director be liable to account to the Company for any profit arising from serving the Company or any affiliated corporation in any such capacity.

33. Loans to employees—The Company may from time to time when authorized by the board:

(a) make loans to bona fide full-time employees of the Company, whether or not they are shareholders or directors, with a view to enabling them to purchase or erect dwelling houses for their own occupation, and take from such employees mortgages or other security for the repayment of such loans;

- (b) provide, in accordance with a scheme for the time being in force, money by way of loan for the purchase of or subscription for shares of the Company by trustees, to be held by or for the benefit of bona fide employees of the Company, whether or not they are shareholders or directors; and
- (c) make loans to bona fide employees of the Company other than directors, whether or not they are shareholders, with a view to enabling them to purchase shares of the Company to be held by them by way of beneficial ownership.

COMMITTEES

34. Executive committee—The board may, at the first meeting of the board after each annual meeting or at any other time, elect from among its members an executive committee consisting of such number of directors (of whom a majority shall form a quorum at any meeting) as the board shall determine. Each member of the executive committee shall hold office, subject to the pleasure of the board, until the next annual meeting, and the board may fill any vacancies in such committee occurring from time to time. If and whenever a vacancy shall exist in the executive committee, however, the remaining members may exercise all of its powers so long as a majority of the stated number of members of the committee remains in office.

During the intervals between meetings of the board, the executive committee shall possess and may exercise all of the powers of the board subject to any restrictions that may be imposed from time to time by the board. The minutes of each meeting of the executive committee shall be furnished, as soon thereafter as practicable, to the board.

A meeting of the executive committee may be held at any place within or without the Province of Alberta.

35. Audit committee—At the first meeting of the board after each annual meeting, the board shall elect from among its members an audit committee consisting of such number of directors as the board may determine. Each member of the audit committee shall hold office, subject to the pleasure of the board, until the next annual meeting, and the board shall fill any vacancies in such committee occurring from time to time.

36. Other committees—The board may from time to time elect or appoint such other committees as it may deem advisable.

37. Powers and procedure—Subject to the other provisions of these Articles, the board may from time to time delegate any powers to any of its committees and may from time to time revoke any such delegation. Except to the extent otherwise provided in these Articles or otherwise determined by the board, each committee of the board shall have the power to elect its own chairman, to fix the quorum for its meetings at not less than a majority of its members, and to fix its own rules of procedure.

OFFICERS

38. Elected officers—At the first meeting of the board after each annual meeting the board shall elect from among its members a president, and at such meeting or at any other time the board may elect from among its members a chairman of the board and, in addition, may elect therefrom one or more vice-chairmen of the board.

39. Appointed officers—The board shall appoint a secretary at the first meeting of the board after each annual meeting, and the board may at such meeting or at any other time appoint one or more vice-presidents, a treasurer and such other officers as the board shall see fit, including one or more officers as assistants to any other officer or officers. The officers so appointed may, but need not, be members of the board. One person may hold more than one office.

40. Term of office and remuneration—In the absence of any written agreement to the contrary, each officer shall hold office, subject to the pleasure of the board, until the next annual meeting or until his successor is elected or appointed. The remuneration and other terms of employment of officers shall be settled from time to time by the board.

41. Vacancies—If a vacancy occurs from time to time in either of the offices of president and secretary, such vacancy shall be filled forthwith by the board. If a vacancy occurs from time to time in any other office of the Company, the board may, but need not, fill such vacancy.

42. **Chairman of the board**—If a chairman of the board is elected, he shall be charged, subject to the authority of the board, with the general supervision of the affairs and business of the Company and shall preside at all meetings of shareholders and of the board.

43. **Vice-chairman of the board**—The vice-chairman of the board, or any of the vice-chairmen if there be more than one, shall, in the absence of the chairman of the board from any meeting of the board, preside at such meeting. In addition, the vice-chairman, or vice-chairmen if there be more than one, shall have such powers and duties as may be assigned to him or them from time to time by the board or by the chairman of the board.

44. **President**—If there is in office a chairman of the board, the president shall be charged, subject to the authority of the chairman of the board, with the general supervision of the day-to-day operations of the Company. In the absence from any meeting of shareholders of the chairman of the board, the president shall preside at such meeting. In the absence from any meeting of the board of the chairman of the board and of a vice-chairman of the board, if any, the president shall preside at such meeting. During any other absences of the chairman of the board or during his disability, the powers of the chairman of the board may be exercised and his duties shall be performed by the president; whenever the president exercises any of such powers or performs any of such duties, the absence or disability of the chairman of the board shall be presumed. In addition, the president shall have such powers and duties as may be assigned to him from time to time by the board or by the chairman of the board.

If there is not in office a chairman of the board, the president shall be charged, subject to the authority of the board, with the general supervision of the affairs and business of the Company. He shall preside at all meetings of shareholders and of the board.

45. **Vice-president**—The vice-president or vice-presidents shall have such powers and duties as may be assigned to them from time to time by the board, by the chairman of the board, or by the president. Any vice-president may be designated as a senior or executive vice-president or otherwise so as to indicate his seniority or function.

46. **Secretary**—The secretary shall give, or cause to be given, all notices required to be given to shareholders, directors, members of committees of the board, and the Company's auditor. He shall attend all meetings of shareholders and, if requested, of the board and of committees of the board, and shall prepare, or cause to be prepared, minutes of all proceedings at such meetings at which he is in attendance. In addition, he shall have such powers and duties as may be assigned to him from time to time by the board, by the chairman of the board, or by the president.

47. **Treasurer**—The treasurer shall be responsible for the deposit and disbursement of funds and the safe-keeping of securities of the Company. In addition, he shall have such powers and duties as may be assigned to him from time to time by the board, by the chairman of the board, or by the president.

48. **Other officers**—The powers and duties of all other officers of the Company shall be such as may be assigned to them from time to time by the board, by the chairman of the board, or by the president, or as may be called for by the terms of their engagement.

49. **Agents and attorneys**—The board may from time to time appoint agents or attorneys for the Company within or without the Province of Alberta with such powers of management or otherwise (including the power to sub-delegate) as shall be thought fit.

PROTECTION OF DIRECTORS AND OFFICERS

50. **Indemnity of directors and officers**—Every director and officer of the Company and his heirs, executors, administrators and other legal personal representatives shall from time to time be indemnified and saved harmless by the Company from and against,

(a) any liability and all costs, charges and expenses that he sustains or incurs in respect of any action, suit or proceeding that is proposed or commenced against him for or in respect of anything done or permitted by him in respect of the execution of the duties of his office, and

(b) all other costs, charges and expenses that he sustains or incurs in respect of the affairs of the Company, provided that no director or officer of the Company shall be indemnified by the Company in respect of any liability, costs, charges or expenses that he sustains or incurs in or about any action, suit or other proceeding as a result of which he is adjudged to be in breach of any duty or responsibility imposed upon him by law unless, in an action brought against him in his capacity as director or officer, he has achieved substantial success as a defendant.

51. Insurance—The Company may purchase and maintain insurance for the benefit of directors and officers.

SHARES

52. Issue of shares—Subject to the provisions of the Act, the Memorandum and these Articles, the board may from time to time allot, issue, or grant options to purchase, the whole or any part of the unissued shares of the Company to such persons or classes of persons and in such manner as the board shall determine.

53. Payment of commissions—Subject to the provisions of the Act, the board may from time to time authorize the payment of commissions (payable either in cash or by the allotment of shares or partly in cash and partly by the allotment of shares or in any other manner) or the allowance of discounts to any persons in consideration of their subscribing or agreeing to subscribe, whether absolutely or conditionally, for unissued shares of the Company, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for such shares, provided that no such commission or discount may exceed 25% of the subscription price.

54. Share certificates—Every shareholder shall be entitled, without payment, to a share certificate evidencing the shares held by him as shown by the Company's records. Subject to the requirements of the Act, share certificates shall be in such form or forms as the board may from time to time determine. Share certificates need not be under corporate seal and shall be signed by two officers of the Company in accordance with Article 64 hereof and, if the Company has appointed a transfer agent for the Company's shares of the particular class or series of shares, countersigned by or on behalf of such transfer agent or any branch transfer agent for such shares, provided that, if so countersigned, the signatures of the officers may be printed, engraved, lithographed or otherwise mechanically reproduced on the certificates. Share certificates so executed shall be valid notwithstanding that one or both of the officers whose signatures (whether manual or facsimile) appear thereon no longer hold office at the date of issue or delivery of the certificates.

55. Replacement of share certificates—Subject to the provisions of the Act, the board, or any officer or agent designated by the board, may impose, either generally or in a particular case, reasonable requirements for the issuance of new share certificates in substitution for and upon cancellation of share certificates that have been defaced or in substitution for share certificates that have been lost or destroyed.

56. Transfer agents and registrars—From time to time the board may appoint a transfer agent to keep the register of transfers for any class or series of shares of the Company and may also appoint a registrar to keep the register of holders for any class or series of shares. The board may also from time to time provide for the keeping of one or more branch registers of transfers or of holders for any class or series of shares, whether located within or without the Province of Alberta, and may for such purpose appoint one or more branch transfer agents or branch registrars. One person may be appointed both transfer agent and registrar or branch transfer agent and branch registrar.

57. Registration of transfers—No transfer of shares of the Company shall be registered in a register of transfers or any branch register of transfers except upon surrender of the certificate representing such shares with a transfer of the shares endorsed thereon or delivered therewith duly executed by the registered holder or his attorney or successor and upon compliance with any other reasonable requirements of the Company or a transfer agent or branch transfer agent. Any transferor of shares shall be deemed to remain the holder of the shares until the name of the transferee is entered in a register in respect thereof.

58. Declaration of dividends—Subject to the provisions of the Act, the board may from time to time declare, and cause the Company to pay, dividends (including distributions of paid-up shares, bonds, debentures,

tures or other securities of the Company and of specific assets of the Company) on issued shares of the Company. A dividend payable to any shareholder in cash shall be paid by cheque drawn on the Company's banker to the order of the shareholder and shall be mailed to such shareholder by prepaid ordinary or air mail in a sealed envelope addressed to him (unless he has directed otherwise) at his address as shown in the Company's records. In the case of joint holders, the cheque (unless they have directed otherwise) shall be made payable to the order of all of such joint holders and, if more than one address appears in the Company's records in respect of the joint holding, shall be mailed to the joint holders at the first address so appearing. The mailing of such cheque as aforesaid (unless it is not paid on due presentation) shall discharge the Company's liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Company was required to withhold. In the event of the non-receipt of such cheque, the Company shall issue to the shareholder a replacement cheque for the same amount on such reasonable terms as to indemnity and evidence of non-receipt as the board, or any officer or agent designated by the board, may require.

59. Record date—The board may fix in advance a time, preceding by not more than 31 days the date of payment of any dividend, the date of issuance of any warrant or other evidence of a right to subscribe for securities of the Company, or the effective date for any conversion, exchange or other change in the share capital of the Company, as the record date for the determination of the shareholders entitled to such dividend, such warrant or other evidence of a right to subscribe for securities, or the rights in respect of such change in share capital, as the case may be.

60. Joint holders—Where two or more persons are registered jointly as holders of shares of the Company, any one of such persons may give a receipt on behalf of all of them for a share certificate that is issued in respect of their shares, for any dividend that is paid in respect of their shares, or for any warrant or other evidence of a right to subscribe for securities of the Company that is issued in respect of their shares, or for any evidence of the rights in respect of any conversion, exchange or other change in the share capital of the Company that is issued in respect of their shares.

61. Changes of capital—Subject to the provisions of the Act, the Company may by resolution of the board:

- (a) increase the maximum price or consideration for which shares without nominal or par value may be issued, where such maximum price or consideration has been stated in the Memorandum or these Articles;
- (b) cancel shares which, at the date of the passing of the above-mentioned resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares cancelled or, in the case of the cancellation of shares without nominal or par value, by the number of shares cancelled;
- (c) cancel paid-up shares which are surrendered to the Company by way of gift and, if the resolution so provides, diminish the amount of its share capital by the amount of the shares, or, in the case of shares without nominal or par value, by the number of shares cancelled; or
- (d) cancel paid-up shares that are acquired by the Company on a distribution of the assets of another corporation under liquidation proceedings, and, if the resolution so provides, diminish the amount of its share capital by the amount of the shares cancelled, or, in the case of shares without nominal or par value, by the number of shares cancelled.

Subject to the provisions of the Act, the Company may by special resolution alter the conditions of the Memorandum as follows:

- (a) increase its share capital by the creation of new shares of such amount or of such number of new shares without nominal or par value as it thinks expedient;
- (b) consolidate and divide all or any of its share capital having a par value into shares of larger amount than its existing shares;
- (c) convert all or any of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination or without nominal or par value; or
- (d) subdivide its shares having a par value, or any of them, into shares of smaller amount than its existing shares, so, however, that in the subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

Shares created pursuant to the foregoing provisions of this Article 61 shall be issued upon such terms and conditions and with such rights, restrictions, conditions and limitations as the meeting of shareholders which resolves upon the creation thereof shall direct or, if no direction be given, as the board shall determine.

Subject to the provisions of the Act, the redemption of preference shares of the Company may be effected on such terms and in such manner as are stated in the Memorandum or the resolution creating the applicable series, the provisions of the Memorandum or the resolution in this regard being incorporated herein by reference.

EXECUTION OF DOCUMENTS

62. **Banking arrangements**—The banking business of the Company shall be transacted with such banks, trust companies or other persons as the board may from time to time determine, and such business shall be transacted on the Company's behalf by such officers or other persons, and in such manner, as the board may from time to time prescribe.

63. **Certificates**—The secretary or any other officer may sign certificates and similar instruments on the Company's behalf with respect to any factual matters relating to the Company's affairs and business, including certificates verifying copies of Articles, resolutions, and minutes of meetings.

64. **Contracts**—Subject to Article 63 hereof, all contracts, deeds, bills of sale, assignments and other instruments including, subject to the provisions of Article 54 hereof, share certificates shall be signed on the Company's behalf by two persons, one of whom is a director or holds the office of chairman of the board, vice-chairman of the board, president or vice-president and the other of whom is another director or holds one of such offices or the office of secretary or treasurer or any other office of the Company.

Notwithstanding the foregoing provisions of this Article and the provisions of Article 63 hereof but subject to the provisions of Article 54 hereof, the board may from time to time direct the person or persons by whom and the manner in which, including the use of facsimile reproductions of any or all signatures, any particular instrument or class of instruments shall be signed.

65. **Corporate seal**—The corporate seal may be affixed to any instrument of the Company when considered advisable by any officer signing the same on the Company's behalf or when authorized by the board. The Company may have for use in any province, country or other jurisdiction an official seal which shall be in the same form as the corporate seal of the Company with the addition on its face of the name of the province, country or other jurisdiction in which it is to be used. The facsimile reproduction of the corporate seal or an official seal on any instrument shall have the same effect as if such seal were affixed thereto.

NOTICES

66. **Method of giving**—Any notice, communication or other document to be given or sent by the Company to a shareholder, director, officer or auditor of the Company under any provision of these Articles, the Memorandum or the Act shall be sufficiently given or sent if it is:

- (a) delivered personally to the person to whom it is to be given;
- (b) delivered to his address as shown in the Company's records;
- (c) mailed by prepaid ordinary or air mail in a sealed envelope addressed to him at his address as shown in the Company's records; or
- (d) sent to him at his address as shown in the Company's records by any form of prepaid transmitted or recorded communication.

A notice, communication or other document so delivered shall be deemed to have been given or sent when it is delivered personally or at the address aforesaid, a notice, communication or document so mailed shall be deemed to have been given or sent when deposited in a post office or public letter box, and a notice, communication or document sent by any form of prepaid transmitted or recorded communication shall be deemed to have been given or sent when despatched or when delivered to the appropriate communications agency or its representative for despatch. From time to time the secretary may change the address in the Company's records for any person in accordance with any information believed by him to be reliable.

If no address for any shareholder is known to the secretary, a notice, communication or other document posted up in the registered office of the Company shall be deemed to have been sufficiently given or sent to such shareholder upon it being so posted up.

67. Computation of time—In computing the time when notice must be given pursuant to any requirement for a specified number of days' notice of any meeting or other event, both the date on which the notice is given and the date of the meeting or other event shall be excluded.

68. Omissions and errors—The accidental omission to give any notice, communication or other document to any shareholder, director, officer or auditor of the Company, or the non-receipt of any notice, communication or other document by any such person, or any error in any notice, communication or other document not affecting the substance thereof, shall not prevent the holding of any meeting held pursuant to such notice, communication or other document or otherwise founded thereon, or invalidate any action taken at such meeting.

69. Notice to joint shareholders—Any notice with respect to a share of the Company registered in more than one name may, if more than one address appears in the Company's records in respect thereof, be given to the holders of such share at the first address so appearing, and notice so given shall be sufficient notice to all such holders.

70. Person entitled by death or operation of law—Every person who by death of a shareholder, operation of law, transfer, or any other means whatsoever, shall become entitled to any share of the Company shall be bound by every notice in respect of such share which, prior to his name and address being entered in the Company's records, was given to the person from whom he derived his title to such share (whether such notice was given before or after the happening of the event upon which he became so entitled).

71. Waiver of notice—Any person entitled to receive a notice required to be given by the Company under the Act, the Memorandum or these Articles, or any person appointed by proxy to represent a shareholder entitled to receive such notice, may waive such notice, and such waiver, whether given before or after the meeting or other event of which the notice is required to be given, shall cure any default in giving the notice.

SCHEDULE D

NORCEN ENERGY RESOURCES LIMITED

INCENTIVE STOCK OPTION PLAN

1. The Board of Directors of Norcen Energy Resources Limited ("the Company") may from time to time in its discretion grant to officers and other full-time employees of the Company and its subsidiaries the right to purchase all or any part of 650,000 Common Shares without par value of the Company upon and subject to such terms, conditions and limitations as are herein contained and otherwise as the Board of Directors may from time to time impose in each option.
2. A Director as such will not be eligible to receive an option under the Plan, but an officer or person employed or engaged in any other capacity by the Company or one or more of its subsidiaries will not be ineligible merely because he may be a Director.
3. The purchase price of the Common Shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors, but such price shall be not less than 90% of the fair market value of the Common Shares. The fair market value for this purpose shall be deemed to be the mean between the highest and lowest prices at which the Company's Common Shares were traded on The Toronto Stock Exchange on the day preceding the date on which the price is so fixed, or, if not so traded, the mean between the closing bid and asking prices thereof on such Exchange for such day.
4. The shares subject to each option shall become purchasable at such time or times after the option is granted as may be determined by the Board of Directors. Each option, unless sooner terminated, shall expire on a date to be fixed by the Board of Directors which date shall be not later than five years from the day the option is granted. Any shares not purchased prior to the expiration of an option may thereafter be re-allocated under the Plan.
5. If the employment of any employee shall be terminated so that he is no longer employed either by the Company or by any subsidiary, his option shall be limited to the number of shares immediately purchasable by him at the time of such termination and his option to purchase any remaining shares shall expire forthwith. Such limited option may be exercised within three months after the termination of employment (or, in the case of death while an employee or within three months after termination of employment, then by his executor or other personal representative within twelve months after such death), but in no event after the date fixed in the option for its expiration. In the case of any employee on approved leave of absence the Board of Directors may make such provision respecting continuance of the option as it may deem equitable, except that in no event shall any option be exercised after the date fixed in such option for termination.
6. No option shall be transferable otherwise than by will or the laws of succession and distribution.
7. No person shall have any of the rights of a shareholder in respect of any shares subject to an option until such shares have been paid for in full and issued to him.
8. The number of Common Shares subject to the Plan shall be increased or decreased proportionately in the event of the subdivision or consolidation of Common Shares of the Company, and in any such event a corresponding adjustment shall be made changing the number of shares deliverable upon the exercise of any option theretofore granted without change in the total price applicable to the unexercised portion of the option, but with a corresponding adjustment in the price for each share covered by the option. In case the Company is reorganized or merged or consolidated or amalgamated with another corporation, appropriate provisions shall be made for the continuance of outstanding rights and to prevent their dilution or enlargement.
9. The Board of Directors may at any time terminate the Plan with respect to any shares not at the time subject to option, and the Board of Directors may at any time amend any of the provisions of the Plan except that the Board may not increase the number of shares referred to in paragraph 1 hereof or reduce the percentage referred to in paragraph 3 hereof.
10. Within the foregoing limitations, the Board of Directors is authorized to provide for the grant and exercise of options on such terms (which may vary as between options) as it shall determine. All decisions and interpretations made by the Board of Directors shall be binding and conclusive on the Company and all employees eligible to participate in the Plan.

