Prairie

Oil Royalties Company, Ltd.

ANNUAL REPORT 1989

CORPORATE PROFILE

Prairie Oil Royalties Company, Ltd. was incorporated July 13, 1951, under the laws of the Province of Saskatchewan in Canada. At December 31, 1989, there were 7,846,076 common shares issued and outstanding. Norcen Energy Resources Limited of Calgary, Alberta, Canada, owns 74.4 per cent of the common shares. The Company produces and sells crude oil, gas liquids and natural gas in Canada and is engaged in oil and gas exploration and development in Western Canada.

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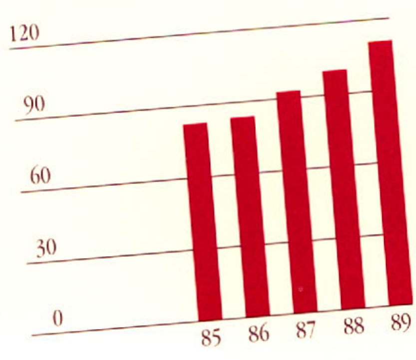
ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Wednesday, May 2, 1990, at 10:30 a.m., local time, in the boardroom of Norcen Energy Resources Limited, 32nd Floor, 715 Fifth Avenue Southwest, Calgary, Alberta, Canada.

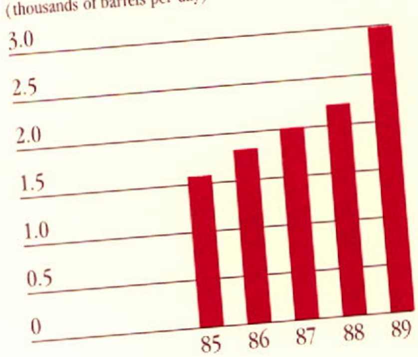
HIGHLIGHTS

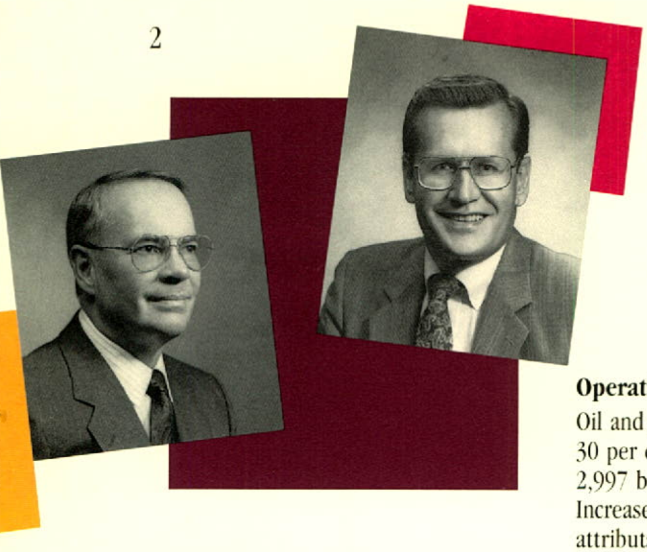
	1989	1988	% Change
Financial (thousands of Canadian dollars except per share amounts)			
Revenue	**$ 21,402**	$15,148	+41
Net earnings	**$ 4,306**	$ 3,627	+19
Net earnings per share	**$ 0.55**	$ 0.46	+19
Cash generated from operations	**$ 15,711**	$13,536	+16
Shareholders' equity	**$ 67,592**	$63,286	+ 7
Total assets	**$110,008**	$99,137	+11
Operations			
Production			
Crude oil and natural gas liquids (barrels per day)	**2,997**	2,299	+30
Natural gas (millions of cubic feet per day)	**9.1**	8.3	+ 9
Established reserves			
Crude oil and NGL (millions of barrels)	**9.7**	7.1	+36
Natural gas (billions of cubic feet)	**71.8**	64.4	+12
Land holdings (thousands of acres)			
Gross	**1,373.5**	1,585.3	−13
Net	**273.5**	279.8	− 2

TOTAL ASSETS
(thousands of Canadian dollars)



PRODUCTION
Crude Oil and Natural Gas Liquids
(thousands of barrels per day)





REPORT TO SHAREHOLDERS

Exploration and development successes, coupled with the acquisition of oil-producing properties during 1989, led to another year of significant production and reserve growth for Prairie Oil. The higher production levels, together with improved crude oil prices, generated solid gains in earnings and cash flow.

Financial

Net earnings in 1989 rose 19 per cent to $4.3 million and cash generated from operations increased 16 per cent to $15.7 million compared with 1988. Revenues increased from $15.1 million to $21.4 million. In 1989, the average price received by Prairie Oil for its oil and natural gas liquids was $18.53 per barrel, up from $15.20 in the previous year.

Capital expenditures of $24.4 million included $6.4 million for the acquisition of oil-producing properties at Golden in northwestern Alberta. In 1988, capital expenditures of $29.9 million reflected the $10.4 million acquisition of oil and gas properties at Cherhill, Alberta.

Barry D. Cochrane, Chairman of the Board, and Wayne M. Newhouse, President

Operations

Oil and gas liquids production increased 30 per cent in 1989, reaching a record 2,997 barrels per day ("b/d"). Increased production was primarily attributable to the Golden and Cherhill acquisitions as well as to new discoveries in the Hays/Enchant and Otter areas, and increases at West Pembina. The acquisition of the Golden properties in June 1989, added an estimated 1.62 million barrels of oil to reserves and approximately 500 b/d to production.

Natural gas production rose 9 per cent in 1989 to 9.1 million cubic feet per day ("mmcf/d") from 8.3 mmcf/d. A gas conservation scheme implemented in mid-1989 at the Cherhill Unit #1 was a major contributor to the improved gas volumes. In 1990, with the benefit of the facility's first full year of operation and a second gas conservation scheme in place, natural gas production is expected to increase to 13.9 mmcf/d.

At December 31, 1989, established crude oil and natural gas liquids reserves were up 36 per cent to 9.7 million barrels, reflecting the Golden acquisition as well as exploration and development successes. Contributions to reserves were added from the Hays/Enchant Nisku oil play in southern Alberta where the Company made six new oil discoveries which were followed up with four successful development wells. Additional contributions were made from discoveries at Grande Prairie and at Otter River in northern Alberta.

Established natural gas reserves, estimated at 71.8 billion cubic feet, increased 12 per cent from last year's level. Two gas discoveries made in 1989 were Berland and West Windfall (Kaybob South) in the Deep Devonian gas play of west-central Alberta where additional drilling is planned in 1990. Gas reserve additions were also made at Harmattan East and Hays.

Management

On November 1, 1989, Wayne M. Newhouse, Senior Vice-President, Production with Norcen Energy Resources Limited, and a member of Prairie Oil's Board of Directors, was appointed President of the Company. Also appointed to corporate positions with Prairie Oil on November 1 were D. K. Bruce Fenwick, Vice-President, Domestic Exploration with Norcen, as Vice-President, Exploration, and J. Gerhard Schopp, Vice-President, Operations with Norcen, as Vice-President, Operations.

Outlook

A capital budget of $20.8 million has been set for 1990 of which $17.0 million has been allocated to exploration. As well as concentrating on expanding Prairie Oil's successful southern Alberta Nisku oil play, other 1990 initiatives will include the Granite Wash play in northern Alberta and the Deep Devonian natural gas play in west-central Alberta.

In the coming year, Prairie Oil anticipates that record growth in gas and liquids production will again be achieved through development programs at Hays/Enchant and Cherhill, and from its aggressive exploration programs in Western Canada. In addition, the Company's strategy will continue to accommodate potential acquisitions if and when they should become available.

On behalf of the Board,

Barry D. Cochrane
Chairman of the Board

Wayne M. Newhouse
President

Calgary, Alberta
February 22, 1990

EXPLORATION AND DEVELOPMENT

Capital expenditures for exploration and development programs as well as acquisitions in 1989 were $24.4 million, net of federal and provincial incentives, as compared to $29.9 million in 1988.

Major areas of activity in 1989 were the Hays/Enchant, Otter/Ogston, Grande Prairie, Berland/Kaybob South and Harmattan East areas of Alberta. The Company participated in the drilling of 43 gross (9.03 net) working interest wells which resulted in 21 gross (3.78 net) oil wells and seven gross (1.89 net) gas wells. The Company also participated through farmout agreements in 10 exploration wells which resulted in seven oil and one gas discoveries.

During 1989, the Company's principal areas of activity were as follows:

Cherhill

In 1988, Prairie Oil acquired oil and gas producing properties in the Cherhill area of Alberta which were unitized during 1989. The unitization and gas conservation scheme implemented mid-year added 2.5 mmcf/d and 250 b/d to Prairie Oil's production volumes.

Hays/Enchant

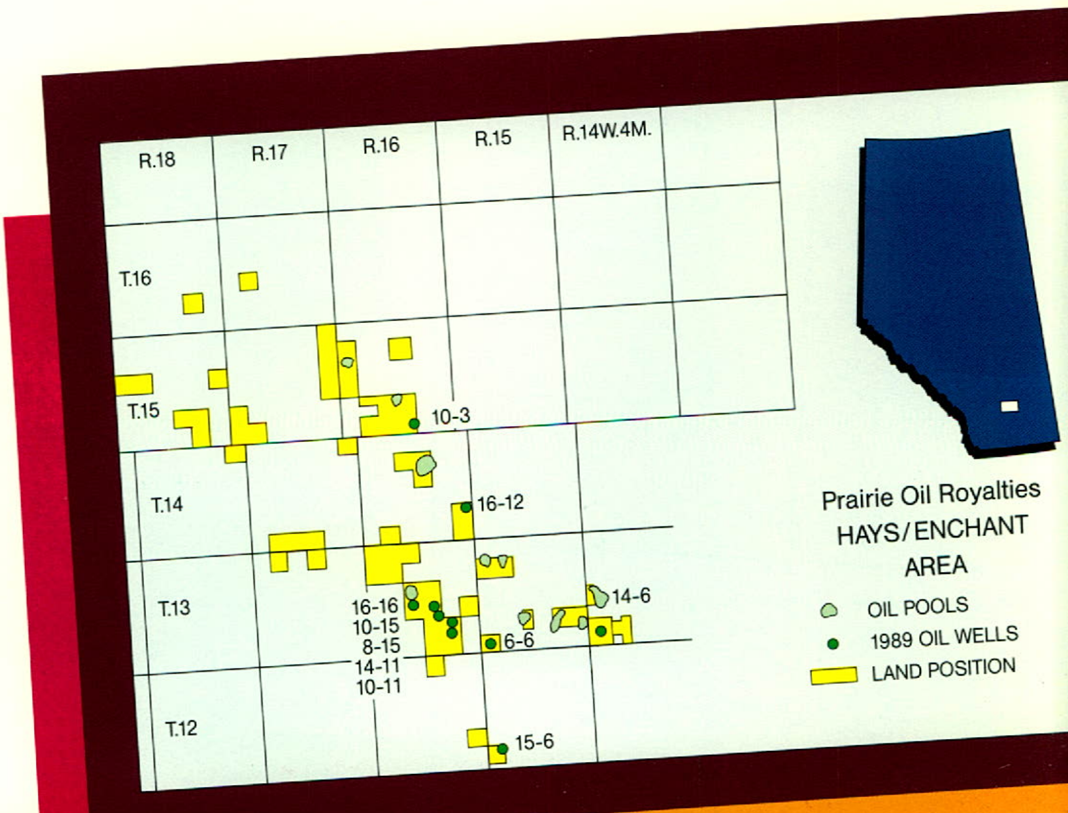
Prairie Oil participated in the drilling of 10 successful oil wells at Hays/Enchant which included six exploratory wells and four development wells. The Company's share of production increased by approximately 145 b/d of oil from working interests which range from 15 to 27.5 per cent. Further drilling activity is planned here in 1990.

Otter/Ogston

Prairie Oil participated in one successful exploratory well and one development well, each with a 50 per cent working interest, which in total added approximately 70 b/d of oil to production.

Grande Prairie

During the year, the Company participated in one exploratory and one development well, each with a 26.31 per cent working interest, adding a total of 50 b/d of oil.



EXPLORATION AND DEVELOPMENT

Berland/Kaybob South

In natural gas exploration, the Company focused on Deep Devonian gas prospects in west-central Alberta. Prairie Oil has acquired an inventory of drilling prospects during the past three years which it has now begun to evaluate. Two wells drilled under this program in 1989 were successful in finding gas and additional drilling was in progress at year-end.

Harmattan East

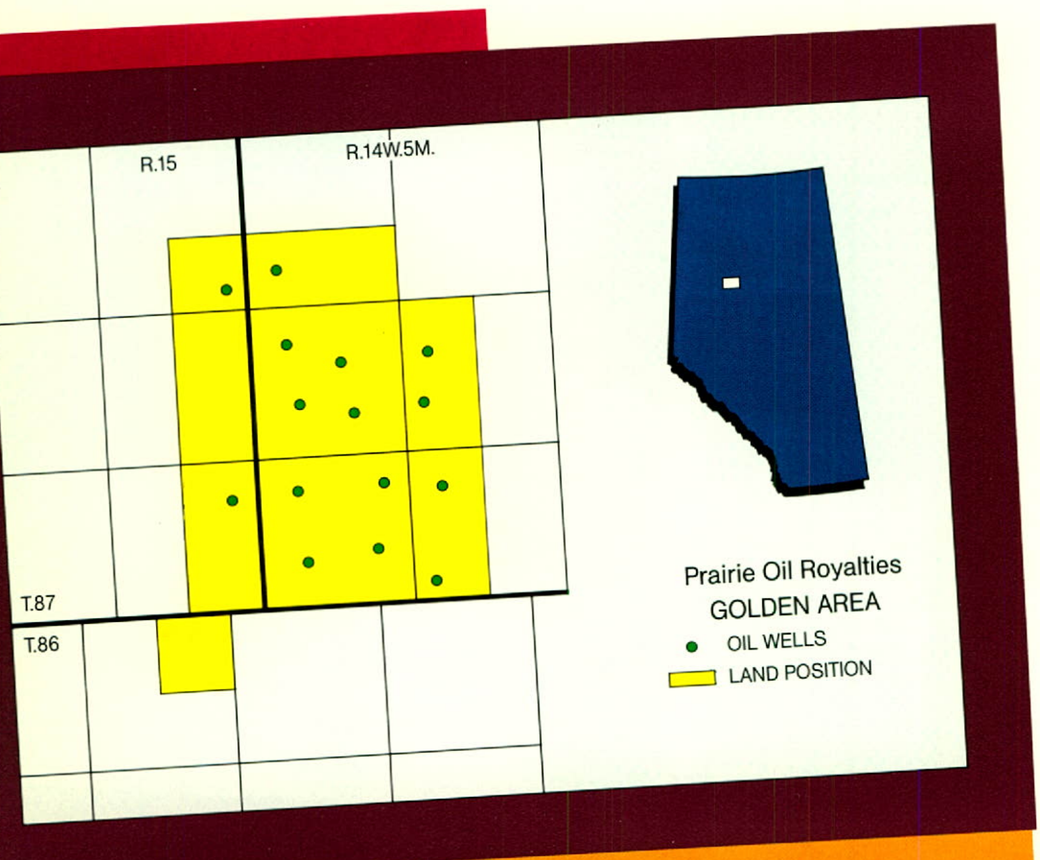
One well, in which Prairie Oil holds a 50 per cent working interest, was drilled at Harmattan East as part of an ongoing development program. Gas sales are expected to commence late in the third quarter of 1990 at approximately 1.0 mmcf/d.

1990 Exploration and Development

A 1990 capital budget of $20.8 million has been approved by the Board of Directors. Expenditures have been budgeted to balance available cash flow and will be concentrated on exploration and development in Western Canada.

Reserves

At December 31, 1989, the Company's established reserves of crude oil and natural gas liquids, before royalties, were estimated at 9.7 million barrels, compared with 7.1 million barrels a year earlier. The addition of 1.6 million barrels from the Golden acquisition effective June 1, 1989 was a major factor contributing to the improvement. Natural gas reserves, estimated at 71.8 billion cubic feet, increased 12 per cent from 64.4 billion cubic feet in 1988 due to Prairie Oil's exploration and development successes during the year.



EXPLORATION AND DEVELOPMENT

Oil and Gas Land Holdings (Acres)

	Developed*		Undeveloped				Total	
	Leases		Leases		Permits and Licences			
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	271,082	52,279	420,253	91,989	141,530	42,758	832,865	187,026
British Columbia	25,159	1,632	35,640	4,556	35,114	3,145	95,913	9,333
Saskatchewan	11,501	1,342	67,370	31,646	32,134	16,067	111,005	49,055
Manitoba	1,440	480	76,488	23,091			77,928	23,571
Ontario			645	135			645	135
Arctic Islands					255,144	4,351	255,144	4,351
TOTAL	309,182	55,733	600,396	151,417	463,922	66,321	1,373,500	273,471

*Developed leases are leases upon which one or more productive or potentially productive wells have been drilled.

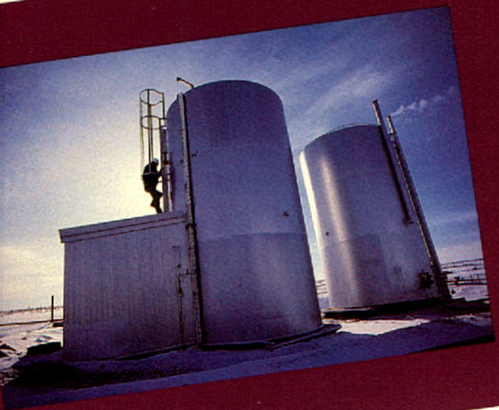
At December 31, 1989, the Company owned interests in 1,373,500 gross (273,471 net) acres as shown in detail in the summary above. This compares with 1,585,298 gross (279,758 net) acres at the end of 1988. The decrease in holdings is due to surrenders and expiries in all provinces, the Northwest Territories, and the Beaufort Sea; and the 1988 sale of land holdings in the United States.

Drilling Summary

The following summary table sets forth the gross and net exploratory and development wells in which the Company participated during the five year period ended December 31, 1989:

	Exploratory Wells					Development Wells				
		Net Wells					Net Wells			
Year	Gross Wells	Oil	Gas	Dry	Total	Gross Wells	Oil	Gas	Dry	Total
1985	57	2.62	.29	8.99	11.90	159	.97	.12	.65	1.74
1986	33	1.24	.24	2.88	4.36	44	.25	.04	.20	.49
1987	49	2.72	.54	6.69	9.95	48	.52	1.30	.33	2.15
1988	68	4.04	1.91	5.08	11.03	15	2.91		1.05	3.96
1989	21	2.08	.51	3.00	5.59	22	1.70	1.38	.36	3.44

As at December 31, 1989, the Company had working interests in 1,291 gross (50 net) producing oil wells and 459 gross (79 net) producing gas wells in Western Canada, and royalty interests in 1,205 gross (28 net) producing oil wells and 55 gross (4 net) producing gas wells, most of which were in Saskatchewan.



MANAGEMENT'S DISCUSSION AND FINANCIAL ANALYSIS

Prairie Oil's financial performance improved significantly in 1989, with net earnings up 19 per cent to $4.3 million (55 cents per share) from $3.6 million (46 cents per share) in 1988. In 1987, net earnings were $6.9 million (89 cents per share) due to the high oil prices received that year. Increased depletion expense in 1988 and 1989, resulting from higher production levels, affected earnings in those years. Cash generated from operations was $15.7 million up from $13.5 million in 1988 and $14.7 million in 1987.

Oil prices improved in 1989, partly as a result of the Organization of Petroleum Exporting Countries' efforts to regulate production levels, an increase in world demand, and intermittent supply disruptions. The price of West Texas Intermediate ("WTI") benchmark crude oil averaged US$15.96 per barrel ("bbl") in 1988, strengthened in early 1989 and averaged US$19.36 for the year.

Revenues and Expenses

Revenues for 1989 increased to $21.4 million, up from $15.1 million in 1988 due to the higher oil prices and an increase in liquids production to 2,997 barrels per day ("b/d") from 2,299 b/d. In 1987, revenues were $17.0 million and oil and natural gas liquids ("NGL") production was 2,014 b/d.

The average price received by Prairie Oil for its oil and NGL production increased commensurate with the WTI price to average $18.53/bbl in 1989, up from $15.20 in 1988 but lower than the $21.25/bbl received in 1987. Oil and NGL volumes are expected to increase in 1990 with the full-year benefit of the Golden and Cherhill acquisitions and with recent discoveries.

Natural gas production increased to 9.1 million cubic feet per day ("mmcf/d") in 1989 from 8.3 mmcf/d in 1988 and 5.9 mmcf/d in 1987. Further production increases are expected in 1990 as a result of a full year of operation at the Cherhill Unit #1 gas conservation scheme. A gas conservation scheme is planned at Cherhill Unit #2 in the coming year.

Funding for acquisitions in 1988 and 1989, coupled with aggressive exploration programs in Western Canada, was provided from liquidation of long and short-term investments and an increase in debt to Prairie's parent company, Norcen Energy Resources Limited. As a result, interest and other income declined to $0.2 million from $1.0 million in 1988 and $1.4 million in 1987, and financing costs increased to $0.9 million from less than $0.1 million in both 1988 and 1987.

Operating expenses increased $1.5 million over 1988, which was $0.8 million over 1987, due to increased production levels resulting from the Cherhill and Golden properties and from new properties brought onstream in 1989.

Depletion and depreciation expense was $9.0 million, up from $7.5 million in 1988 and $5.4 million in 1987. The increase was primarily due to the higher production level in 1989, partially reduced by a slight decline in the depletion rate resulting from the lower unit cost of acquired reserves.

Income tax expense was $0.8 million in 1989 compared to a recovery of $0.6 million in 1988 and a $1.1 million expense in 1987. Offsetting these tax provisions are Alberta Royalty Tax Credits ("ARTC") of $1.7 million in 1989, $1.9 million in 1988 and $2.7 million in 1987. On November 6, 1989, the Government of Alberta announced significant changes to the ARTC rules effective January 1, 1990. Although these changes are not expected to materially affect Prairie Oil's credit for 1990, the rule forcing associated companies to share the allowable credit will materially affect the benefit in 1991 and subsequent years.

Capital and Other Spending

The Company purchased certain interests in properties in the Golden, Alberta area for $6.4 million in June 1989. The acquisition added 1.62 million barrels of oil to reserves and 500 b/d of oil to current production levels. This acquisition and continued exploration and development in the Western Canadian Sedimentary Basin resulted in capital expenditures of $24.4 million in 1989 compared to $29.9 million in 1988 and $12.7 million in 1987.

A 1990 capital budget of $20.8 million has been approved by the Board of Directors. The exploration budget of $17.0 million will concentrate on the Nisku oil zone in southern Alberta and the Deep Devonian natural gas play in west-central Alberta. Development expenditures of $3.8 million are also planned for 1990.

Liquidity

In 1989, the capital program and the Golden acquisition were funded through cash generated from operations, supplemented by additional financing from Prairie's parent. At the end of 1989, the amount due to the Company's parent stood at $6.8 million. The investments held in 1988 were sold in order to assist the financing of the Cherhill acquisition and the capital programs.

At the May 10, 1989 Annual and Special Meeting of Shareholders, approval was given to create two new classes of preferred shares. The issuance of the junior and senior preferred shares remains an option available should future financing be required.

In 1990, it is expected that the capital budget of $20.8 million will be financed from cash generated from operations. Any surplus cash will be applied to the debt due to the Company's parent. Prairie Oil anticipates that the current high level of oil prices will not be sustained and that the average price for WTI crude in 1990 will decline to approximately US$20.00/bbl. At that price, and barring any unforeseen circumstances, Prairie Oil expects its cash flow to increase over the 1989 level. A variation of US$1.00 per barrel in the price of WTI crude would have an approximate $0.8 million impact on net earnings and $1.4 million on cash flow.

CONSOLIDATED BALANCE SHEET

As at December 31, 1989 and 1988 (thousands of Canadian dollars)

	1989	1988
ASSETS		
Current Assets		
Cash and short-term investments		$ 652
Accounts receivable	$ 2,503	4,360
Income tax receivable	125	434
	2,628	5,446
Investments		
(quoted market value $1,762 in 1988)		1,776
Properties, Plant and Equipment (Note 2)	107,380	91,915
	$110,008	$99,137
LIABILITIES		
Current Liabilities		
Accounts payable and accrued charges	$ 2,933	$ 1,303
Due to parent company	6,803	3,738
Current amount of deferred gas revenues	586	574
	10,322	5,615
Deferred Gas Revenues	2,197	2,761
Deferred Income Taxes	29,897	27,475
SHAREHOLDERS' EQUITY		
Capital Stock (Note 3)		
Issued: 7,846,076 common shares	1,962	1,962
Contributed Surplus	574	574
Retained Earnings	65,056	60,750
	67,592	63,286
	$110,008	$99,137

Approved by the Board

, Director

, Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Years Ended December 31, 1989, 1988 and 1987 (thousands of Canadian dollars except per share amounts)

	1989	1988	1987
Sales and Other Revenues			
Oil and gas	**$19,298**	$12,431	$13,154
Royalties	**1,947**	1,693	2,426
Interest and other	**157**	1,024	1,406
	21,402	15,148	16,986
Costs and Expenses			
Production	**4,535**	3,074	2,313
Depletion and depreciation	**8,983**	7,507	5,385
General and administrative	**1,854**	1,541	1,218
Financial expense	**925**	42	61
	16,297	12,164	8,977
Earnings before income taxes	**5,105**	2,984	8,009
Income taxes (Note 4)			
Current (recovery)	**(1,623)**	(2,899)	(1,286)
Deferred	**2,422**	2,256	2,348
	799	(643)	1,062
Net Earnings	**4,306**	3,627	6,947
Retained Earnings, Beginning of Year	**60,750**	57,123	50,176
Retained Earnings, End of Year	**$65,056**	$60,750	$57,123
Earnings Per Share	**$ 0.55**	$ 0.46	$ 0.89

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1989, 1988 and 1987 (thousands of Canadian dollars)

	1989	1988	1987
Operating Activities			
Net earnings	**$ 4,306**	$ 3,627	$ 6,947
Add non-cash items:			
Deferred income taxes	**2,422**	2,256	2,348
Depletion and depreciation	**8,983**	7,507	5,385
Other		146	
Cash generated from operations	**15,711**	13,536	14,680
Deferred gas revenues	**(564)**	(408)	(710)
Sale of subsidiary (Note 5)		837	
Decrease (increase) in working capital (i)	**3,808**	(4,636)	984
Net Cash Available	**18,955**	9,329	14,954
Investing Activities			
Investments	**(1,776)**	(1,890)	
Expenditures on properties, plant and equipment	**26,154**	33,453	13,888
Government incentive payments earned	**(1,706)**	(3,552)	(1,191)
Total Cash Invested	**22,672**	28,011	12,697
Excess (Deficiency) Before Financing	**(3,717)**	(18,682)	2,257
Financing Activities			
Advances from parent	**3,065**	3,740	
Change in Cash	**(652)**	(14,942)	2,257
Cash, Beginning of Year	**652**	15,594	13,337
Cash, End of Year	**$**	$ 652	$15,594

(i) Working capital excludes cash, short-term investments and amounts due to parent.

AUDITORS' REPORT

To the Shareholders of Prairie Oil Royalties Company, Ltd.

We have examined the consolidated balance sheet of Prairie Oil Royalties Company, Ltd. as at December 31, 1989 and 1988 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1989. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1989 in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
February 2, 1990

Peat Marwick Thorne
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1989, 1988 and 1987 (thousands of Canadian dollars)

1. Accounting Policies

The Annual Report and the accompanying consolidated financial statements have been prepared by Management and approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and comply with United States generally accepted accounting principles in all material respects. The principles used were those judged by Management to be the most appropriate in the circumstances. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the Annual Report including the consolidated financial statements, and that all information contained in the Annual Report is consistent with the consolidated financial statements. The Company's auditors are responsible for auditing the consolidated financial statements and expressing an opinion on them. The Audit Committee of the Board of Directors is responsible for reviewing the annual consolidated financial statements and reporting thereon to the Board, making recommendations to the Board with respect to the appointment and remuneration of the Company's auditors, reviewing the scope of the audit and reviewing the Company's internal financial controls.

Basis of Presentation

The consolidated financial statements include the accounts of Prairie Oil Royalties Company, Ltd. and, for 1988 and 1987, the consolidated statement of earnings and retained earnings and the statement of changes in financial position for its wholly-owned subsidiary, P.O.R. Oil & Gas Inc., which was sold on December 31, 1988. All of the Company's operations are in one business segment, namely, oil and gas exploration, development and production, and substantially all of the Company's operations are conducted in one geographic segment, Canada. Accordingly, no separate disclosure has been made of financial data by segment.

Properties, Plant and Equipment

Oil and gas properties and production equipment, in accordance with the full cost method of accounting, include expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted and depreciated, on a country-by-country basis, using the unit of production method based on total estimated proved recoverable reserves. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. Proceeds on sale of properties are credited to asset costs.

Deferred Gas Revenues

Deferred gas revenues represent payments received under take-or-pay gas contracts. These amounts are included in revenue as the gas to which the payments relate is delivered. Deliveries, which are to be made over a ten year period, ending in 1993, and are governed by contractual arrangement.

2. Properties, Plant and Equipment

	1989	1988
Properties	**$139,000**	$118,352
Production equipment	**18,094**	14,294
	157,094	132,646
Accumulated depreciation and depletion	**49,714**	40,731
Net book value	**$107,380**	$ 91,915

During the year, the Company capitalized $2,176 ($2,222 in 1988, $1,743 in 1987) of administrative overhead expenditures directly related to exploration and development activities.

3. Capital Stock

(a) *Authorized*

The authorized share capital of the Company consists of an unlimited number of common shares; an unlimited number of junior preferred shares; and an unlimited number of senior preferred shares.

(b) *Issued*

The Company has 7,846,076 common shares issued and outstanding of which 74.4 per cent are owned by the Company's parent, Norcen Energy Resources Limited ("Norcen").

4. Income Taxes

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and for financial statement purposes. The source of these differences is principally exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation.

The provision for income taxes in the consolidated statement of earnings and retained earnings varies from the amount that would be computed by applying the Canadian federal statutory rate to earnings before income taxes for the following reasons:

	1989	1988	1987
Earnings before income taxes	**$5,105**	$2,984	$8,009
Canadian federal statutory rate of income tax	**38.84%**	42.43%	46.56%
Computed income tax expense	**$1,983**	$1,266	$3,729
Increase (decrease) in income tax resulting from:			
Alberta Royalty Tax Credit	**(1,716)**	(1,941)	(2,673)
Provincial income taxes in excess of federal abatement	**263**	150	360
Large Corporations Tax — excess	**92**		
Non-deductible crown payments less federal resource allowance	**(72)**	16	(44)
Non-deductible depletion	**217**		
Other, net	**32**	(134)	(310)
Actual income tax expense	**$ 799**	$ (643)	$1,062
Effective income tax rate	**15.65%**	(21.55)%	13.26%

5. Sale of Subsidiary

Effective December 31, 1988, the Company sold its 100 per cent interest in P.O.R. Oil & Gas Inc., to Norcen for a cash consideration of $837. The book value of the assets of P.O.R. Oil & Gas Inc. was $650.

6. Related Party

The Company's operations are managed by its parent company, Norcen. For the year ended December 31, 1989, management fees paid to Norcen amounted to $3,899 ($3,640 in 1988; $2,829 in 1987). Amounts due to Norcen stood at $6,803 at year-end ($3,738 in 1988; nil in 1987). This debt has no fixed payment schedule and interest is charged at the prime rate as reported by the Canadian Imperial Bank of Commerce.

SUPPLEMENTAL INFORMATION (Unaudited)

Years Ended December 31, 1989, 1988 and 1987 (thousands of Canadian dollars except per share amounts)

Quarterly and Other Financial Data

	Quarter				Year
	First	Second	Third	Fourth	
1989					
Revenue	**$4,422**	**$4,694**	**$5,993**	**$6,293**	**$21,402**
Earnings before income taxes	**$1,015**	**$1,155**	**$1,673**	**$1,262**	**$ 5,105**
Net earnings	**$1,094**	**$1,020**	**$1,441**	**$ 751**	**$ 4,306**
Earnings per share	**$ 0.14**	**$ 0.13**	**$ 0.18**	**$ 0.10**	**$ 0.55**
Market price per common share (i)					
High	**$ 6½**	**$ 6¾**	**$ 7⅜**	**$ 8⅜**	**$ 8⅜**
Low	**$ 5⅜**	**$ 6**	**$ 6⅝**	**$ 7⅛**	**$ 5⅜**
1988					
Revenue	$ 4,199	$ 3,415	$ 3,787	$ 3,747	$ 15,148
Earnings before income taxes	$ 1,347	$ 804	$ 768	$ 65	$ 2,984
Net earnings	$ 1,216	$ 821	$ 1,027	$ 563	$ 3,627
Earnings per share	$ 0.15	$ 0.11	$ 0.13	$ 0.07	$ 0.46
Market price per common share (i)					
High	$ 7⅛	$ 7⅜	$ 6¾	$ 5⅞	$ 7⅜
Low	$ 4⅞	$ 5⅞	$ 5⅝	$ 5	$ 4⅞

(i) The market prices are as reported by the American Stock Exchange, Inc. (the primary market) in U.S. dollars.

Oil and Gas Information

The following unaudited supplementary information is disclosed in accordance with the provisions of SFAS No. 69 "Disclosures about Oil and Gas Producing Activities".

Capitalized Costs

The Company has capitalized property acquisition, exploration and development costs pertaining to its oil and gas operations as follows:

	1989	1988
Properties		
Proved	**$129,784**	$108,392
Unproved	**9,216**	9,960
Production equipment	**18,094**	14,294
	157,094	132,646
Accumulated depreciation and depletion	**49,714**	40,731
Capitalized costs	**$107,380**	$ 91,915

SUPPLEMENTAL INFORMATION (Unaudited)

Years Ended December 31, 1989, 1988 and 1987 (thousands of Canadian dollars)

Costs Incurred for Property Acquisition, Exploration and Development Activities

The following table presents information on the Company's oil and gas property acquisition, exploration and development activities:

	1989	1988	1987
Costs capitalized in the year			
Property acquisition — Proved	**$ 6,440**	$10,378	
— Unproved	**2,738**	4,095	$ 3,297
Exploration (i)	**11,041**	12,156	8,067
Development (i)	**4,229**	3,272	1,333
Total capitalized	**$24,448**	$29,901	$12,697

(i) Exploration and development costs are shown net of government incentive payments earned of $1,706 in 1989 ($3,552 in 1988; $1,191 in 1987).

Results of Operations for Oil and Gas Producing Activities

	1989	1988	1987
Revenue	**$25,054**	$17,174	$19,110
Production expenses (i)	**8,686**	6,245	5,955
Depreciation and depletion (ii)	**8,983**	7,507	5,385
	7,385	3,422	7,770
Income tax expense (recovery)	**1,793**	(505)	953
Results of operations from producing activities (excluding corporate overhead and interest costs)	**$ 5,592**	$ 3,927	$ 6,817

(i) Production expenses include oil and gas operating expenses, production revenue taxes as well as freehold and crown royalty payments of $4,151 in 1989 ($3,171 in 1988; $3,642 in 1987).
(ii) Depletion expense per equivalent barrel was $5.45 in 1989 ($5.56 in 1988; $4.47 in 1987).

Reserves

The reserve information provided below is provided on a proved reserve basis only after deducting royalty interests of governments and others. Substantially all of the Company's proved reserves are developed. The reserve quantity information summarizes the changes in quantities of net proved oil and gas reserves determined using constant prices and costs.

	1989		1988		1987	
	Oil and Gas Liquids	**Gas**	Oil and Gas Liquids	Gas	Oil and Gas Liquids	Gas
	(mbbls)	(mmcf)	(mbbls)	(mmcf)	(mbbls)	(mmcf)
Beginning of year	**5,485**	**50,934**	3,594	40,995	3,165	34,299
Revision of previous estimates	**306**	**3,118**	44	1,096	531	8,579
Purchase of reserves in place	**1,315**		1,025	6,353		
Extensions, discoveries and other additions	**1,226**	**4,565**	1,515	4,877	484	
Production	**(904)**	**(2,882)**	(693)	(2,387)	(586)	(1,883)
End of year	**7,428**	**55,735**	5,485	50,934	3,594	40,995

SUPPLEMENTAL INFORMATION (Unaudited)

Years Ended December 31, 1989, 1988 and 1987 (millions of Canadian dollars)

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

In calculating the standardized measure of discounted future net cash flows, prices and costs in effect at December 31, 1989, were assumed to be constant, were applied to proved reserves as determined by internal engineering estimates and provision was made for estimated future development expenditures that will be required to produce the reserves. Royalty deductions were based on laws, regulations and contracts existing at the end of the fiscal year. The discounted future net cash flows are derived by applying a 10 per cent discount factor, as required by the SFAS No. 69 rules, to the future net cash flows.

Management believes that this information does not sufficiently reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to potential reserves, the use of a 10 per cent discount rate is arbitrary and prices constantly change from year-end levels.

	1989	1988	1987
	(millions of Canadian dollars)		
Future cash inflows	**$ 306.3**	$212.6	$178.2
Future production costs	**(118.6)**	(78.5)	(62.5)
Future development costs	**(3.0)**	(3.3)	(2.7)
Future income tax expense	**(59.2)**	(37.6)	(38.9)
Future net cash flows	**$ 125.5**	$ 93.2	$ 74.1
Standardized measure of future net cash flows discounted at 10%	**$ 73.1**	$ 56.6	$ 44.3

The following table sets out principal sources of change in the standardized measure of discounted future net cash flows during the respective periods:

	1989	1988	1987
	(millions of Canadian dollars)		
Sales of oil and gas and value of transfers	**$ (16.4)**	$(10.9)	$(13.2)
Net changes in prices and production costs	**14.0**	(8.6)	1.3
Extensions, discoveries and improved recovery, less related costs	**12.8**	13.3	6.0
Purchase of reserves in place	**8.6**	10.6	
Development costs incurred during the period	**1.4**	0.3	0.2
Revisions of previous quantity estimates and other	**0.8**		11.3
Accretion of discount	**7.9**	6.8	5.5
Net changes in income taxes	**(12.6)**	0.8	0.1
Net increase	**16.5**	12.3	11.2
Beginning of period	**56.6**	44.3	33.1
End of period	**$ 73.1**	$ 56.6	$ 44.3

SELECTED FINANCIAL AND OPERATING DATA

(thousands of Canadian dollars except per share amounts and Stock Exchange quotations)

Five Year Summary

Long-term obligations, including capital leases, redeemable preferred stock and dividends are not applicable for the disclosed periods.

	For the Years Ended December 31				
	1989	1988	1987	1986	1985
Revenue					
Oil sales	**$ 15,041**	$ 9,108	$10,239	$ 7,772	$13,224
Gas sales	**4,257**	3,323	2,915	4,352	5,291
Royalties	**1,947**	1,693	2,426	1,633	3,665
Interest and other	**157**	1,024	1,406	1,308	1,475
	21,402	15,148	16,986	15,065	23,655
Expenses					
Production and administration	**6,389**	4,615	3,531	3,832	3,462
Production revenue taxes				917	2,802
Depreciation and depletion	**8,983**	7,507	5,385	5,652	5,172
Financial expense	**925**	42	61	79	92
Write-down of non-productive assets				1,341	
Income taxes	**799**	(643)	1,062	1,132	5,543
	17,096	11,521	10,039	12,953	17,071
Net Earnings	**$ 4,306**	$ 3,627	$ 6,947	$ 2,112	$ 6,584
Cash Generated from Operations	**$ 15,711**	$13,536	$14,680	$11,046	$15,463
Capital Expenditures (i)	**$ 24,448**	$29,901	$12,697	$ 8,720	$17,129
Total Assets	**$110,008**	$99,137	$93,585	$83,413	$82,455
Production (before royalties)					
Crude oil and natural gas liquids (barrels per day)	**2,997**	2,299	2,014	1,827	1,660
Natural gas (mcf per day)	**9,118**	8,340	5,915	8,078	8,674
Common Shares					
Issued and outstanding	**7,846,076**	7,846,076	7,846,076	7,846,076	7,846,076
Number of shareholders	**635**	650	692	693	705
Earnings per share	**$ 0.55**	$ 0.46	$ 0.89	$ 0.27	$ 0.84

Market Prices

American Stock Exchange (U.S. $)	**1989**		1988		1987		1986		1985	
	High	**Low**	High	Low	High	Low	High	Low	High	Low
1st Quarter	**6½**	**5⅜**	7⅛	4⅞	7⅜	6	5⅞	3⅞	6¾	6
2nd Quarter	**6¾**	**6**	7⅜	5⅞	7⅛	6⅛	5⅞	4¾	7⅝	5¾
3rd Quarter	**7⅜**	**6⅝**	6¾	5⅝	9¾	6⅜	5⅜	4	7	6
4th Quarter	**8⅜**	**7⅛**	5⅞	5	7⅝	4⅞	6½	4¾	6⅝	5⅛

Toronto Stock Exchange (Cdn. $)	**1989**		1988		1987		1986		1985	
	High	**Low**	High	Low	High	Low	High	Low	High	Low
1st Quarter	**7½**	**6¾**	8¼	6⅜	9½	8	7½	6⅞	9¼	8½
2nd Quarter	**8¼**	**7⅛**	8½	7½	9½	8¾	8	6¼	10¼	7⅜
3rd Quarter	**8⅝**	**8**	7¾	7	12	9	7½	6¼	9⅛	8⅜
4th Quarter	**9⅜**	**8⅜**	7¼	6¼	10	6½	8¾	7	8½	7⅛

(i) Capital expenditures are net of government incentive payments earned.

CORPORATE INFORMATION

Board of Directors

BARRY D. COCHRANE*, Calgary, Alberta
Executive Vice-President and
Chief Operating Officer
Norcen Energy Resources Limited

NORMAN E. FROST*, Calgary, Alberta
President
CanStates Gas Marketing

EDWARD A. GALVIN*, Calgary, Alberta
Chairman of the Board
Poco Petroleums Ltd.

FREDERICK A. McKINNON*, Calgary, Alberta
Company Director

WAYNE M. NEWHOUSE, Calgary, Alberta
Senior Vice-President, Production
Norcen Energy Resources Limited

PAUL H. PALMER, Calgary, Alberta
Senior Vice-President and
Chief Financial Officer
Norcen Energy Resources Limited

CLIFFORD A. RAE, Q.C., Calgary, Alberta
Barrister and Solicitor

DAVID M. TYERMAN, Q.C., Regina, Saskatchewan
Barrister and Solicitor
MacPherson, Leslie & Tyerman

*Member of the Audit Committee

Corporate Officers

BARRY D. COCHRANE, Chairman of the Board
WAYNE M. NEWHOUSE, President
D. K. BRUCE FENWICK, Vice-President, Exploration
WILLIAM T. KILBOURNE, Vice-President, Legal
J. GERHARD SCHOPP, Vice-President, Operations
GORDON B. SINGER, Vice-President, Comptroller
DAVID M. TYERMAN, Q.C., Secretary
D. STEPHEN MUIR, Treasurer
ROBERT J. BREEN, Assistant Treasurer
DONNA M. BARBER, Assistant Secretary
LINDA G. SWAN, Assistant Secretary

Executive Office

715 Fifth Avenue Southwest
Calgary, Alberta T2P 2X7

Registered Office

1500 Continental Bank Building
1874 Scarth Street
Regina, Saskatchewan S4P 4E9

Registrars and Transfer Agents

Montreal Trust Company of Canada
Regina, Saskatchewan and Toronto, Ontario

First Chicago Trust Company of New York
New York, U.S.A.

Auditors

Peat Marwick Thorne
Calgary, Alberta

Stock Exchange Listings

(Symbol — POY)
Toronto Stock Exchange
American Stock Exchange, Inc.

FORM 10-K

Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available to Shareholders by writing to the Corporate Secretary of the Company.

Prairie

Oil Royalties Company, Ltd.

715 FIFTH AVENUE SOUTHWEST
CALGARY, ALBERTA T2P 2X7

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