

Prairie

Oil Royalties Company, Ltd.



Despite a difficult environment, the outlook for the Company is favorable. We are positioned to take advantage of future opportunities.

Annual Report 1986

Annual and Special Meeting

The Annual and Special Meeting of Shareholders of the Company will be held on Friday, May 8, 1987, at 10:30 o'clock in the forenoon, local time, in the Boardroom of Norcen Energy Resources Limited, Thirty-second Floor, 715 Fifth Avenue Southwest, Calgary, Alberta, Canada.

Corporate Profile

Prairie Oil Royalties Company, Ltd. was incorporated July 13, 1951, under the laws of the Province of Saskatchewan, Canada. At December 31, 1986, 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 Western Canada, and is engaged in oil and gas exploration and development in Western Canada, the Arctic Islands and the United States. Minor interests are also held in exploratory lands in the Northwest Territories and the Province of Ontario. Operations in the United States are carried out through P.O.R. Oil & Gas Inc., a wholly-owned subsidiary. The Company is not involved in refining or retail marketing.

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PRAIRIE OIL ROYALTIES COMPANY, LTD.

715 Fifth Avenue Southwest
CALGARY, ALBERTA, CANADA T2P 2X7

Notice of Annual and Special Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual and Special Meeting of Shareholders (the "Meeting") of Prairie Oil Royalties Company, Ltd. (the "Company") will be held in the Boardroom of Norcen Energy Resources Limited, 32nd Floor, 715 Fifth Avenue Southwest, Calgary, Alberta, Canada, on

FRIDAY, MAY 8, 1987

at 10:30 o'clock in the forenoon, local time, for the following purposes:

1. to receive the annual report including the consolidated financial statements for the year ended December 31, 1986 and the auditors' report thereon;
2. to elect directors;
3. to appoint auditors and authorize the Board of Directors to fix their remuneration;
4. to consider and, if thought fit, ratify an addition to the Company's By-Law No. 1; and
5. to transact such other business as may properly come before the Meeting or any adjournment thereof.

Shareholders who do not expect to attend the Meeting in person are requested to complete, date and sign the form of proxy enclosed with this notice and forward it, in the envelope provided, to the Secretary of the Company, c/o The Canada Trust Company, 505 Third Street Southwest, Calgary, Alberta, Canada, T2P 3Y8.

DATED at Calgary, Alberta, Canada, this 30th day of March, 1987.

BY ORDER OF THE BOARD OF DIRECTORS

W. T. KILBOURNE
Assistant Secretary

PRAIRIE OIL ROYALTIES COMPANY, LTD.

715 Fifth Avenue Southwest
CALGARY, ALBERTA, CANADA T2P 2X7

Proxy Circular and Statement

March 30, 1987

Solicitation of Proxies

This Proxy Circular and Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Prairie Oil Royalties Company, Ltd. (the "Company") for use at the Annual and Special Meeting of Shareholders (the "Meeting") of the Company called for May 8, 1987 at the time and place and for the purposes set forth in the accompanying notice of Meeting. The solicitation will be primarily by mail but proxies may also be solicited personally by the directors and officers of the Company. The cost of this solicitation will be borne by the Company. The Company will pay persons holding shares in their names or in those of their nominees for their reasonable expenses in sending solicitation material to their principals. This Proxy Circular and Statement and a form of proxy will be mailed to the shareholders on or about March 30, 1987.

All dollar amounts herein are stated in Canadian dollars.

Appointment, Revocation and Delivery of Proxies

The persons named in the attached form of proxy to represent shareholders at the Meeting are directors of the Company. **Shareholders desiring to appoint some other person to represent them at the Meeting may do so** either by inserting such other person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy. A person appointed as a proxyholder need not be a shareholder of the Company.

To be voted at the Meeting, a proxy must be received by the Secretary of the Company or by the Chairman of the Meeting prior to or at the Meeting. A shareholder who has given a proxy may revoke it by depositing another form of proxy bearing a later date or a form of revocation of proxy, signed by the shareholder or by the shareholder's attorney authorized in writing, at the office of the Company at the address shown above, or at the Company's registered office, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof. Alternatively, the shareholder may revoke the proxy as to any matter in which a vote has not already been cast pursuant to the authority conferred by the proxy, by depositing such form of proxy or of revocation with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or may revoke the proxy in any other manner permitted by law.

Exercise of Discretion by Proxies

Subject to Section 113 of The Securities Act of Saskatchewan, the persons named in the enclosed form of proxy will vote all shares in respect of which they are appointed to act on any ballot that may be called for and they will vote or withhold from voting such shares in accordance with any directions given therein. In the absence of any directions to the contrary, the shares represented by the proxies will be voted for the election of directors, for the appointment of auditors and for the ratification of an addition to the Company's By-Law No. 1 as stated under those headings in this Proxy Circular and Statement.

The attached form of proxy confers discretionary authority upon the persons appointed with respect to amendments to matters identified in the notice of Meeting and with respect to any other matters which may properly come before the Meeting. The directors of the Company know of no matters to come before the Meeting other than the matters referred to in the notice of Meeting. If any matters which are not now known should properly come before the Meeting, the persons named in the enclosed form of proxy will vote on such matters in accordance with their best judgement.

Voting Shares

The Board of Directors has fixed the close of business on March 27, 1987 as the record date for determination of the shareholders entitled to receive the notice of Meeting. Only persons who are shareholders of record at the close of business on March 27, 1987, or who subsequently become shareholders and make a request to vote to the Secretary of the Company in accordance with the provisions of The Business Corporations Act of Saskatchewan, by the close of business on April 27, 1987, will be entitled to vote at the Meeting. On a ballot all persons who are shareholders entitled to vote will be entitled to one vote for each share held.

The capital stock of the Company consists of a single class of common shares. There are 7,846,076 common shares outstanding, all of which are entitled to be voted at the Meeting.

A quorum at the Meeting will consist of at least two persons holding or representing by proxy not less than 25% of the outstanding shares of the Company.

Principal Shareholders and Ownership

To the knowledge of the directors and officers of the Company, the following table shows the share ownership in the Company of each person or company beneficially owning, or exercising control or direction over, more than 5% of the outstanding shares of the Company. This information, not being within the knowledge of the Company, has been furnished by its parent company (oil and gas company), Norcen Energy Resources Limited ("Norcen").

Name of beneficial owner	Class of shares	Number of shares beneficially owned	Percent of class owned
Norcen Energy Resources Limited (i) 715 Fifth Avenue Southwest Calgary, Alberta	Common	5,837,236	74.4

(i) *Norcen Equities Limited, a private subsidiary of Hees International Corporation ("Hees") currently owns 10,262,950 Voting Ordinary Shares and 9,643,250 Non-Voting Ordinary Shares of Norcen, which shares represent a 37.6% voting interest and a 43.3% non-voting interest in Norcen.*

Certain trusts, amongst whom Edward M. Bronfman, Peter F. Bronfman and their respective families are beneficiaries, control Edper Enterprises Ltd. ("Edper"). Edper owns directly 100% of Hees Holdings Ltd., which, in turn, owns 41% of the voting shares of Hees. Hees and its affiliated companies own, directly and indirectly, 100% of the voting shares of Norcen Holdings Limited which, in turn, directly owns 100% of the voting shares of Norcen Equities Limited. Therefore, Hees indirectly owns approximately 37.6% of the Voting Ordinary Shares of Norcen.

As a result of the corporate relationships described above, Edward M. Bronfman and Peter F. Bronfman may be deemed to be "beneficial owners" of the shares of Norcen held by Hees and, in turn, the shares of the Company held by Norcen and "control persons" of the Company.

To the knowledge of the directors and officers of the Company, the following table shows the beneficial ownership of, or control or direction over, the Company's shares and those of Norcen, by the Company's directors and officers as a group.

Company	Class of shares	Number of shares beneficially owned	Percent of class owned
Prairie Oil Royalties Company, Ltd.	Common	7,200	0.092
Norcen Energy Resources Limited	Voting Ordinary	40,469	0.148
	Non-Voting Ordinary	53,354	0.240
	Junior Preference, 1983 Series	500	0.008

As of March 20, 1987, no director or officer of the Company beneficially owned, or exercised control or direction over, more than 1% of the outstanding shares of the Company or more than 1% of any class of the outstanding shares of Norcen.

Election of Directors

Under the Articles and By-Law No. 1 of the Company, the Board of Directors consists of a minimum of three members and a maximum of fifteen members and the number of directors within such range is to be determined by the Board of Directors from time to time. At present there are six directors in office. The Board of Directors has fixed by resolution, that there shall be six directors elected at the Meeting. A director need not be a shareholder of the Company.

The following table sets forth the names and ages of the six persons nominated for election as directors of the Company, all of whom are at present directors and are eligible for election, together with (i) their present principal occupations or employments, (ii) all other positions and offices with the Company and its wholly-owned U.S.A. subsidiary, P.O.R. Oil & Gas Inc., now held by them (if any), (iii) the date on which each nominee became a director of the Company and (iv) the number of shares of the Company and Norcen beneficially owned or controlled, directly or indirectly, by each nominee as at March 20, 1987 except that holdings of Norcen Voting Ordinary and Non-Voting Ordinary Shares under Norcen's Employee Savings and Investment Plan are included as at December 31, 1986. The persons named in the enclosed form of proxy intend to vote for the election of the six nominees whose names are set forth below save where there is a direction to withhold voting. Each of the proposed nominees has consented to serve as a director, if elected, but should any nominee become unable to do so for any reason prior to the Meeting, the persons named in the attached form of proxy reserve the right to vote for another nominee in their discretion. Each director elected at the Meeting will hold office until the next annual meeting of shareholders or until his successor is elected or appointed.

Name, position with the Company and subsidiary, and present principal occupation or employment	Age	Served as a Director since	Shareholdings (1)		
			Company Shares	Norcen Shares	
				Voting Ordinary	Non-Voting Ordinary
BARKWELL, Donald D. Chairman of the Board of the Company, since March 1, 1983 and Director of the Company's subsidiary since April 7, 1981. Senior Vice-President, Natural Resources, from Jan. 1, 1979 to Feb. 21, 1983, Executive Vice-President from Feb. 22, 1983 to Sept. 2, 1986, and Executive Vice-President and Chief Operating Officer since Sept. 3, 1986, all with Norcen.	56	1973	—	11,294	16,013
COCHRANE, Barry D. President of the Company and President and Director of the Company's subsidiary since Sept. 16, 1986. Vice-President, Corporate Planning, from Jan. 1, 1979 to Feb. 21, 1983, Senior Vice-President from Feb. 22, 1983 to Sept. 2, 1986, and Senior Vice-President, Exploration and Production since Sept. 3, 1986, all with Norcen.	51	1986	—	—	—
GALVIN, Edward A. Chairman and Director, POCO Petroleum Ltd. (oil and gas exploration and development company) and Director of its affiliates, POCO Oil Ltd. and POCO Resources Ltd.	74	1966	3,200	20,373	20,373
McKINNON, Frederick A. Company Director.	69	1966	—	—	—

Name, position with the Company and subsidiary, and present principal occupation or employment	Age	Served as a Director since	Shareholdings (1)		
			Company Shares	Norcen Shares	
				Voting Ordinary	Non-Voting Ordinary
RAE, Clifford A., Q.C. Barrister and Solicitor. Administrator of private foundation and Counsel with Macleod Dixon, Barristers and Solicitors. Prior to Feb. 1, 1986 partner with Macleod Dixon.	49	1966	—	—	—
TYERMAN, David M., Q.C. Secretary of the Company since May 19, 1966. Barrister and Solicitor, Counsel with MacPherson, Leslie & Tyerman, Barristers and Solicitors.	80	1963	4,000	1,000	1,000

- (1) The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by each nominee. It does not include shares beneficially owned by members of the immediate families of nominees as follows: Mr. E. A. Galvin, 3,500 Norcen Voting Ordinary Shares, 3,500 Norcen Non-Voting Ordinary Shares and 4,000 Convertible Junior Preference Shares, 1983 Series, and Mr. D. M. Tyerman, 200 Norcen Voting Ordinary Shares and 200 Norcen Non-Voting Ordinary Shares, as to which they disclaim beneficial ownership.

Background Information on Nominees for Election as Directors

Messrs. Barkwell and Cochrane are professional engineers and have been engaged during the past five years in the field of natural resource exploration and development and have held various executive, technical and administrative positions with the Company and Norcen and its other subsidiaries. Mr. Barkwell is a director of Norcen and Morgan Bank of Canada, and Mr. Cochrane holds directorships in Iron Ore Company of Canada and Progas Limited.

Mr. Galvin, a professional engineer, has during the past five years held senior executive positions in the natural resource exploration and development field. Mr. Galvin is a director of Bathier Resources Inc., Bonanza Resources Ltd., and Domequity Growth & Calgary, Ltd.

Mr. McKinnon is a professional geologist and until his retirement in 1977 was engaged in executive, technical and administrative positions with BP Canada Inc. and BP Exploration Canada Limited (both oil and gas companies). At the present time he is a director of Fluor Canada Ltd., Nova, An Alberta Corporation, and Novalta Resources Ltd.

Messrs. Rae and Tyerman are barristers and solicitors and have been associated with their respective law firms during the past five years and have been and continue to be involved in legal and business matters relating to natural resource exploration and development companies, including the Company (see "Other Transactions"). Mr. Rae is currently administering a private foundation, and serves as a director of Norcen and SOQUIP (Alberta) Inc.

Meetings of the Board and Audit Committee

During the last full fiscal year there were five meetings of the Board of Directors. The only committee of the Board of Directors is the Audit Committee (the "Committee"), composed of three directors, two of whom are neither officers nor employees of the Company or its subsidiary. The Committee reviews all financial statements and auditors' reports and reports to the Board of Directors thereon. At the Board's request the Committee reviews the scope of the examination to be performed by the auditors, the Company's internal financial controls and the appointment and remuneration of the Company's auditors. In the course of performing these functions the Committee meets with the Company's auditors and financial officers. The present members of the Committee are Messrs. McKinnon (Chairman), Cochrane and Galvin. The Committee held one meeting during 1986.

During 1986 all directors, with the exception of Mr. Galvin, attended at least 75% of the aggregate of all Board of Directors' meetings and meetings of the Committee.

Management

The following table presents information with respect to certain officers of the Company. For information concerning Mr. D. D. Barkwell, Chairman of the Board, Mr. B. D. Cochrane, President and Mr. D. M. Tyerman, Secretary, reference is made to "Election of Directors" and "Background Information on Nominees for Election as Directors".

Name and principal occupation and employment last five years	Age (1)	Position with Company (2)	Appointment Date
Gordon B. Singer Comptroller, Natural Resource Division from 1980 to Feb. 1983, Vice-President, Accounting and Services from Feb. 1983 to Sept. 1986, and Vice-President and Comptroller since Sept. 1986, all with Norcen.	46	Vice-President, Comptroller	December 2, 1982
D. Stephen Muir Budget Co-ordinator from Apr. 1981 to Feb. 1983, Manager, Accounting and Systems from Mar. 1983 to Dec. 1986 and Treasurer since Dec. 1986, all with Norcen.	35	Treasurer	December 10, 1986
William T. Kilbourne Vice-President, Administration and Secretary from 1978 to Feb. 1983 and Vice-President, Legal and Secretary since Feb. 1983, all with Norcen.	52	Assistant Secretary	August 31, 1976
Linda G. Swan Corporate Secretarial administrative position since 1981, with Norcen.	40	Assistant Secretary	September 10, 1986
Robert J. Breen Accountant, from 1981 to Oct. 1986 with Labrador Mining and Exploration Company Limited (a wholly-owned subsidiary of Norcen) and Investment Analyst since Nov. 1986 with Norcen.	43	Assistant Treasurer	December 10, 1986
Beatrice A. Reitzel Treasury Supervisor from 1980 to May 1985, Chief Accountant, Treasury from June 1985 to Oct. 1986 and Assistant Treasurer since Oct. 1986, all with Norcen.	37	Assistant Treasurer	December 10, 1986

(1) At December 31, 1986.

(2) Officers hold their positions for an indefinite term at the discretion of the Board of Directors.

Compensation of Directors and Officers (Year ended December 31, 1986)

Directors of the Company, excluding those who are officers or employees of the Company or of Norcen, receive an annual fee of \$4,000 plus an attendance fee of \$400 for each board meeting attended. Chairmen and members of committees receive fees of \$500 and \$400, respectively, for each meeting attended. Directors' fees paid for the year 1986 totalled \$22,500 and were paid to four directors.

The Company's officers do not receive any compensation from the Company. All of the Company's officers, with the exception of Mr. D. M. Tyerman who does not receive a salary as Secretary of the Company, are

employees of Norcen and receive their remuneration from Norcen and participate in the employee benefit plans, including the pension plan, maintained by Norcen. The Company has no employees.

None of the directors and officers of the Company received personal benefits from the Company during 1986.

Management services are provided to the Company by Norcen under a management contract. The fee paid or payable to Norcen under this contract is composed of two elements: an exploration overhead and an administrative overhead, both calculated by reference to the total exploration and administration costs of Norcen and of all the companies managed by Norcen.

For the year ended December 31, 1986, the fee paid and payable to Norcen was \$3,057,000 composed of \$1,789,000 for exploration overhead and \$1,268,000 for administrative overhead. The comparative amounts for the year ended December 31, 1985 were \$2,913,000, \$1,599,000 and \$1,314,000 respectively.

The insiders of Norcen as at March 20, 1987 are as set forth in the attached Schedule "A" as required by securities legislation of the Provinces of Ontario and Saskatchewan.

Other Transactions

Substantially all of the Company's participation in land acquisitions and related exploration and development operations are in projects in which Norcen is a participant.

Norcen maintains, on its own behalf and on behalf of certain of its subsidiaries (including the Company), directors' and officers' liability insurance with a policy limit of \$10,000,000 aggregate per policy year. Under this insurance coverage, Norcen would be reimbursed for indemnity payments made on behalf of its directors and officers and those of its subsidiaries (including the Company) subject to a deductible of \$500,000 per occurrence. Individual directors and officers of the Company would also be reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Company subject to an individual deductible of \$10,000 and an aggregate deductible of \$50,000. The total premium for directors' and officers' liability insurance in respect of 1986 was \$163,000 and was paid by Norcen on behalf of itself and certain of its subsidiaries, including the Company.

Mr. D. M. Tyerman and Mr. C. A. Rae serve as counsel with the firms of MacPherson, Leslie & Tyerman and Macleod Dixon, respectively. Both law firms rendered legal services to the Company during 1986 and the Company proposes to retain these firms in the current fiscal year.

Appointment of Auditors

As set forth in the notice of Meeting, action will be taken at the Meeting with respect to the appointment of auditors. In the absence of any directions to the contrary the persons named in the attached form of proxy intend to vote for the appointment of Thorne Ernst & Whinney as auditors of the Company to hold office until the next annual meeting of shareholders. Thorne Ernst & Whinney were first appointed as auditors of the Company on October 27, 1967 under the name of Riddell, Stead & Co.

Representatives of Thorne Ernst & Whinney are expected to be present at the Meeting with the opportunity to make a statement if they desire to do so and to respond to any appropriate questions.

Addition to By-Law No. 1

The Shareholders will be requested to consider and if thought fit to ratify, by ordinary resolution, an amendment to the Company's By-Law No. 1.

By resolution adopted on February 26, 1987, and subject to Shareholder approval, the Board of Directors authorized the addition of a new Section 3.11 to the Company's By-Law No. 1. The addition provides for the participation by any director in a meeting of the directors or of a committee of the directors without requiring that director to be physically present at such meeting.

Pursuant to Section 109(9) of The Business Corporations Act of the Province of Saskatchewan such meetings are now permitted by way of "conference-call" communications facilities, upon the consent of each director for each such meeting. It is the intent that the addition of Section 3.11 will, when necessary, facilitate the expeditious holding of such a meeting by eliminating the individual consent requirement of each director for each such

meeting. Reference is made to the text of Section 3.11 attached as Schedule "B" to this Proxy Circular and Statement.

Other Business

While there is no business of which the directors are aware to be presented for action by the shareholders at the Meeting other than that mentioned above, it is intended that the proxy votes hereby solicited will be exercised upon any other matters and proposals that may properly come before the Meeting, and at any adjournment thereof, in accordance with the discretion of the persons authorized to act thereunder.

Annual Report on Form 10-K

Upon written request by any shareholder to the Secretary of the Company, 715 Fifth Avenue Southwest, Calgary, Alberta, Canada, T2P 2X7, the Company will provide to such shareholder, without charge, a copy of the Company's 1986 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission pursuant to the provisions of the United States Securities Exchange Act of 1934.

Shareholder Proposals

To comply with the provisions of The Business Corporations Act of Saskatchewan, proposals intended to be presented by a shareholder or shareholders of the Company at the annual meeting to be held in 1988 must be received at the offices of the Company no later than January 28, 1988 for inclusion in the Company's Proxy Circular and Statement and form of proxy relating to that meeting. Such proposals should be submitted by registered mail — return receipt requested.

The Board of Directors has approved the contents of this Proxy Circular and Statement and the sending of this Proxy Circular and Statement to shareholders.

W. T. KILBOURNE
Assistant Secretary

SCHEDULE "A"
Insiders of Norcen as at March 20, 1987

BARKWELL, Donald D.
1211 Lansdowne Avenue S.W.
Calgary, Alberta

BASSETT, Douglas G.
118 Forest Hill Road
Toronto, Ontario

BATTLE, Edward G.
6128 Belvedere Road S.W.
Calgary, Alberta

BLACK, Conrad M.
26 Park Lane Circle
North York, Ontario

BLACK, G. Montegu
43 Russell Hill Road
Toronto, Ontario

BREEN, Robert J.
109, 540 - 18th Avenue S.W.
Calgary, Alberta

CHANT, Dixon S.
167 Coldstream Avenue
Toronto, Ontario

COCHRANE, Barry D.
2818 Linden Drive S.W.
Calgary, Alberta

COCKWELL, Jack L.
34 Whitney Avenue
Toronto, Ontario

COURTOIS, E. Jacques, Q.C.
21 Westwood Drive
Hudson, Quebec

DESPRÉS, Robert, O.C.
890 Dessane Avenue
Quebec City, Quebec

DUNFORD, Robert A.
43 Steeplechase Avenue
Aurora, Ontario

EATON, Fredrik S.
104 Forest Hill Road
Toronto, Ontario

EDWARDS, Donald J.
20, 141 Castlerock Drive
Richmond Hill, Ontario

EYTON, J. Trevor, O.C., Q.C.
15 Elm Avenue
Toronto, Ontario

FINLAY, Percy C., Q.C.
184 Alexandra Boulevard
Toronto, Ontario

GALVIN, Edward A.
4103 Crestview Road S.W.
Calgary, Alberta

GILES, Herman K.
3 Sir Galahad Place
Markham, Ontario

HANRAHAN, Thomas P.
1213 Varsity Estates Road N.W.
Calgary, Alberta

HEES INTERNATIONAL
CORPORATION
Toronto, Ontario

KARRAS, Walter E.
241 Elton Park Road
Oakville, Ontario

KERR, David W.
6 Glengowan Road
Toronto, Ontario

KILBOURNE, William T.
Wood Ditton
Box 2, Site 2
Subdivision Service 3
Calgary, Alberta

LOUCKS, Wilfrid A.
18, 18 - 22 West Crescent Street
McMahon's Point
North Sydney, Australia

MCKEAG, Honourable W. John
510 Kelvin Boulevard
Winnipeg, Manitoba

MCKINNON, Frederick A.
2314 - 7th Street S.W.
Calgary, Alberta

MALYSHEFF, George A.
46, 28 Berwick Crescent N.W.
Calgary, Alberta

MUIR, D. Stephen
66 Ranchridge Drive N.W.
Calgary, Alberta

NEWHOUSE, Wayne M.
4115 - 14A Street S.W.
Calgary, Alberta

PALMER, Paul H.
D302, 500 Eau Claire Avenue S.W.
Calgary, Alberta

RADLER, F. David
2146 South West Marine Drive
Vancouver, B.C.

RAE, Clifford A., Q.C.
96 Massey Place S.W.
Calgary, Alberta

REITZEL, Beatrice A.
Site 36, Box 6, R.R. 2
Calgary, Alberta

SINGER, Gordon B.
103 Lake Mead Drive S.E.
Calgary, Alberta

STEPHENS, Kenneth A.
89 Crescent Road
Toronto, Ontario

TYERMAN, David M., Q.C.
3465 Argyle Road
Regina, Saskatchewan

WALKER, Martin D.
12500 Edgewater Drive
Lakewood, Ohio

WOOD, Arthur L.
740 Willard Road S.E.
Calgary, Alberta

YARNELL, John R.
161 Roxborough Drive
Toronto, Ontario

SCHEDULE "B"

WHEREAS it is considered desirable that By-Law No. 1 of the Company be amended by the addition of Section 3.11 regarding directors' participation at directors' and/or committee meetings.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. Approval be and the same is hereby given to amend By-Law No. 1 of the Company by the addition of the following section:

"By-Law No. 1 of the Company is amended as follows:

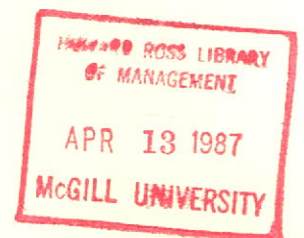
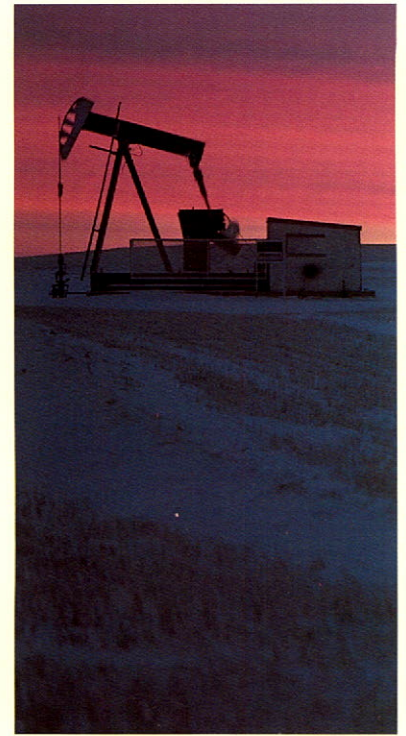
'Section 3.11

Meeting Participation. A director may participate in a meeting of the directors or of a committee of the directors by means of such telephone or other communications facilities as permit all persons participating in the meeting to hear each other. A director participating in a meeting by such means is deemed for the purposes of this section to be present at that meeting and, as such, is eligible to receive any fee(s) paid therefore';"

2. The officers and/or directors of the Company be and are hereby authorized to take all such necessary action and to execute and deliver all such documentation as required to implement this amendment, which shall be considered effective this date.

Highlights

	1986	1985
	(thousands of Canadian dollars except per share amounts)	
Financial		
Revenue	\$15,065	\$23,655
Net earnings	2,112	6,584
Net earnings per share	0.27	0.84
Cash flow	11,046	15,463
Working capital	12,637	15,001
Total assets	83,413	82,455
Production		
Crude oil and natural gas liquids — barrels per day	1,827	1,660
Natural gas — mcf per day	8,078	8,674





B. D. Cochrane, President
and D. D. Barkwell, Chairman

Report to Shareholders

The Company's financial performance for 1986 declined significantly from the levels which had prevailed over the previous four years. Net earnings fell from \$6.6 million in 1985 or \$0.84 per share to \$2.1 million or \$0.27 per share in 1986. This was due to a 52 per cent reduction in average crude oil prices received in 1986 over 1985 and due to a \$1.3 million write-down of the Company's investment in the United States. Cash flow from operations fell from \$15.5 million to \$11.0 million.

The Company's gas production decreased from 8.7 million cubic feet per day to 8.1 million cubic feet per day. Prices declined gradually over 1986, from an opening average of \$2.43 per thousand cubic feet to \$1.62 per thousand cubic feet for the closing two months. Deregulation of gas pricing in Canada, effective November 1, 1986, and increased competition in U.S. natural gas markets resulted in lower sales volumes and declines in prices.

Oil and gas liquids production reached a record level of 1,827 barrels per day, up from 1,660 barrels per day in 1985. Greater improvements would have been possible except for a combination of market forces and limitations in pipeline capacity which resulted in approximately 210 barrels per day of the Company's production being shut-in throughout the year.

Oil prices declined in early 1986 as a result of the world oversupply of crude oil and the Organization of Petroleum Exporting Countries' ("OPEC") inability to dictate world price levels by production restraint. Late in the year, OPEC stabilized production quotas and prices recovered modestly to that organization's \$U.S.18.00 per barrel objective. It remains to be seen whether OPEC can continue to maintain its commitment to adhere to production quotas in order to maintain prices at current levels.

Outlook

Despite a difficult environment, the outlook for the Company is favorable. The recent firming of oil prices, fiscal changes, the Company's strong financial position and the lower cost of doing business are all positive factors. Additionally, price and volume improvements appear imminent in North American natural gas markets while oil prices are expected to generally remain at current levels with continued volatility.

A number of improvements in the fiscal regime were made in late 1986 to stimulate activity in the oil and gas sector. Of particular importance to the Company was the elimination of the federal Petroleum and Gas Revenue Tax, two years ahead of schedule. The Government of Alberta extended the \$3 million Alberta Royalty Tax Credit, introduced permanent reductions to royalty rates payable on both oil and gas, and introduced new royalty holidays to encourage additional drilling activity.

The collective effect of these factors has been an improved economic climate, offsetting to some extent, the lower commodity prices. As a result, the Company is positioned to take advantage of future opportunities.

Management

During 1986, William C. Hennenfent elected to take early retirement from Norcen and tendered his resignation as President and Director of the Company. We extend our thanks for Mr. Hennenfent's contributions and wish him well in the future.

Effective September 16, 1986, Barry D. Cochrane, Norcen Senior Vice-President, Exploration and Production, was appointed by the Board as President and a director of the Company and its subsidiary.

On behalf of the Board

Donald D. Barkwell, Chairman

Barry D. Cochrane, President

Calgary, Alberta

February 26, 1987

Exploration and Development

In 1986, capital expenditures for exploration and development totalled \$10,095,000 gross, or \$8,720,000 net after federal and provincial incentives, representing decreases of 52 per cent and 49 per cent from 1985.

Major areas of activity were the Triangle-Kenzie and West Pembina regions of Alberta. The Company participated in the drilling of 33 (4.36 net) exploratory wells resulting in 9 (1.24 net) oil wells and 4 (.24 net) gas wells during 1986, including participation in 5 exploratory wells in the United States. Also included in these figures are 11 (.5 net) wells drilled at no cost to Prairie Oil on Company lands under farmout agreements. The Company also participated in the drilling of 44 (.49 net) development wells resulting in 39 (.25 net) oil wells and 3 (.04 net) gas wells.

The following details principal areas in which the Company conducted operations in 1986:

Triangle-Kenzie

During the year, the Company participated in the drilling of 2 successful exploratory oil wells. With a 45 per cent working interest in each well, Prairie Oil's combined share of production is 75 barrels of oil per day.

Currently, in this area in northern Alberta, the Company has interests ranging from 23.6 per cent to 80 per cent in 8 oil wells capable of producing 350 barrels per day.

West Pembina (Brazeau River)

In 1986, design of a new ethane recovery facility was ongoing. The plant is scheduled to commence operation in mid-1987. Prairie Oil has a 3.1 per cent working interest in the project which will increase the Company's share of processing capacity by 45 barrels of oil per day.

West Pembina Belly River "DDD" Waterflood

Currently, the Company has a working interest of 5.25 per cent in 7 producing wells. In 1986, construction commenced on a waterflood project which is scheduled for implementation in early 1987. Prairie Oil's share of production is expected to increase from 20 to 80 barrels of oil per day.

United States

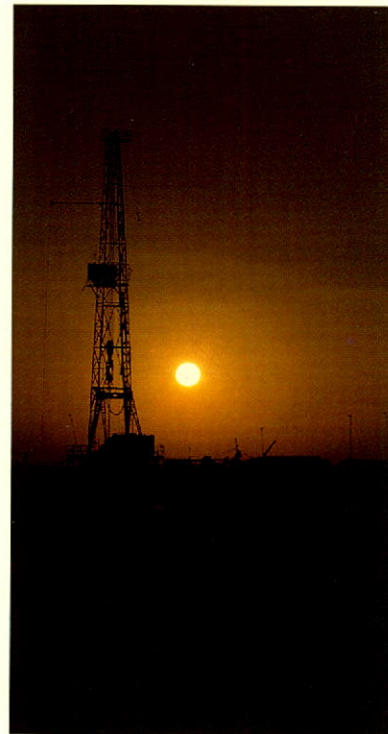
Through its wholly-owned subsidiary, P.O.R. Oil & Gas Inc., the Company has interests in 10 of the 12 producing wells in the Sandbar East field in northern Wyoming. In 1986, the Company's share of production was 70 barrels of oil per day. To stabilize production, unitization of the pool and implementation of a waterflood will commence in 1987. At year-end, the Company held interests in 67,807 gross (3,187 net) acres concentrated in the Powder River Basin of Wyoming.

1987 Exploration and Development

In 1987, the Company's capital expenditures for exploration and development will be increased to near cash flow levels and will continue to be monitored throughout the coming year. A capital expenditure budget of \$14,101,000 was approved by the Company's Board of Directors. A significant portion of these funds has been allocated for Canadian exploration and development activities while operations in the United States are expected to be maintained at current levels. The Company will also continue to improve operational efficiencies and pursue opportunities to enhance its reserve base.

Reserves

As of December 31, 1986, the Company's established reserves of crude oil and liquids were estimated to be 4.3 million barrels, before royalties. Established natural gas reserves were estimated to be 57.5 billion cubic feet, before royalties.



Oil and Gas Land Holdings

	Developed*		Undeveloped				Total	
	Leases		Leases		Reservations and Permits		Gross	Net
	Gross	Net	Gross	Net	Gross	Net		
Alberta	253,329	44,027	470,271	71,616	245,615	50,105	969,215	165,748
British Columbia	35,135	2,503	55,106	3,780	9,157	1,374	99,398	7,657
Saskatchewan	11,608	1,377	76,316	32,408	9,600	624	97,524	34,409
Manitoba	1,680	480	83,925	24,591			85,605	25,071
Ontario			1,495	326			1,495	326
Arctic Islands			1,502	38	2,404,325	73,633	2,405,827	73,671
Northwest Territories					17,500	547	17,500	547
United States	1,418	94	66,389	3,093			67,807	3,187
TOTAL	303,170	48,481	755,004	135,852	2,686,197	126,283	3,744,371	310,616

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

At December 31, 1986, the Company owned interests in 3,744,371 gross (310,616 net) acres as shown in detail in the summary above. This compares with 4,210,452 gross (325,722 net) acres at the end of 1985. In addition, the Company holds royalty interests in 118,665 gross acres.

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, 1986.

Year	Exploratory Wells				Development Wells			
	Gross Wells	Net Wells			Gross Wells	Net Wells		
		Oil	Gas	Dry Holes		Oil	Gas	Dry Holes
1982	52	2.17	.83	4.68	5	.45		1.00
1983	43	1.50	.47	4.55	13	1.15		.21
1984	49	2.22	.13	4.96	90	1.02		.22
1985	57	2.62	.29	8.99	159	.97	.12	.65
1986	33	1.24	.24	2.88	44	.25	.04	.20
TOTAL	234	9.75	1.96	26.06	311	3.84	.16	2.28

As at December 31, 1986, the Company had working interests in 627 gross (15 net) producing oil wells and 279 gross (42 net) producing gas wells (including 82 gross (13 net) shut-in gas wells) all in Western Canada, working interests in 13 gross (0.5 net) producing oil wells in the United States, and royalty interests in 480 gross (12 net) producing oil wells and 13 gross (0.5 net) producing gas wells, most of which were in the Province of Saskatchewan.

Management's Discussion and Financial Analysis

Despite attaining the highest levels of oil and gas liquids production in the Company's history, net earnings in 1986 fell to \$2.1 million, 68 per cent below 1985. This drop is the direct result of the collapse of international crude oil prices which fell by more than 50 per cent over 1985.

Net earnings in 1986 amounted to \$2.1 million or \$0.27 per share as compared to \$6.6 million or \$0.84 per share in 1985 and \$6.5 million and \$0.82 per share in 1984. Cash flow from operations declined from \$15.5 million in 1985, and \$14.0 million in 1984 to \$11.0 million in 1986 representing a 29 per cent reduction. Similarly, the return on shareholders' equity, which had been 13.9 per cent in 1985 and 15.8 per cent in 1984 fell to 4.1 per cent in 1986. The decline in financial performance in 1986 is due to reductions in the price received on the Company's crude oil production and to a write-down of non-productive assets in the United States in the amount of \$1.3 million.

Due to global oversupply, world oil prices dropped rapidly in early 1986 and remained soft throughout the year. The North American benchmark crude, West Texas Intermediate, fell from a level of U.S. 26.30 in December 1985, to a low of U.S. 9.75 before making some recovery prior to year's end. The average price on crude oil and liquids production received by the Company declined 52 per cent in 1986 as compared to 1985. The domestic gas market also experienced downward pressure on prices, due to deregulation of natural gas pricing in Canada effective November 1.

As a result of reduced prices, which the Company believes will prevail for the next few years, Prairie Oil reduced its 1986 capital expenditures program by 47 per cent from a budgeted level of \$16.3 million to \$8.7 million, net of government incentives.

Measures introduced by provincial and federal governments in the latter half of 1986 have since helped mitigate the effects of depressed prices. The Alberta and Saskatchewan governments introduced temporary incentive programs which expired at year-end, and implemented new programs with decreasing royalty structures and new royalty holidays for qualifying wells. Likewise, the federal government eliminated the Petroleum Gas Revenue Tax ("PGRT") on October 1, which will significantly add to future cash flows.

Revenues and Expenses

Sales and other revenues, which had improved 8 per cent in 1985 over 1984, declined 36 per cent due to the sharp decrease in oil prices. Oil and gas liquids production increased to 1,827 barrels per day, up from 1,660 barrels per day in 1985 and 1,516 barrels per day in 1984. The average crude oil price received by the Company in 1986 was \$16.96 per barrel versus \$34.97 in 1985. Although productive capacity increased in 1986 over 1985, principally due to the addition of volumes at Taber North and from exploration success at Triangle-Kenzie, sales were limited by approximately 210 barrels per day due to constraints on the Interprovincial Pipe Line system which effectively shut-in wells at high producing Alberta fields, including West Pembina.

Natural gas production decreased to 8.1 million cubic feet per day in 1986 from 8.7 million cubic feet per day in 1985, principally due to lower sales from the Verger and Yoyo fields. Gas revenues decreased due to the drop in production volumes and the average price the Company received which in 1986 was \$2.01 per thousand cubic feet, down from \$2.42 per thousand cubic feet in the previous year.

Production costs increased 21 per cent over 1985, versus an increase of 37 per cent in 1985 over the previous year. New production from Triangle-Kenzie, combined with acceleration of enhanced oil recovery projects, is the primary factor accounting for this increase. Production expenses were partially offset by the introduction of cost efficiencies which resulted in production unit costs increasing 21 per cent on gas properties, but increasing only 8 per cent for oil.

Production revenue taxes decreased due to the decline of production revenues, a lower rate of taxation in 1986 versus 1985, and elimination of the PGRT. Depreciation and depletion expense continued to increase due to costs incurred to add new reserves as well as higher levels of oil and gas liquids production in 1986 over 1985.



Management's Discussion and Financial Analysis

In September 1986, the Canadian Institute of Chartered Accountants issued an Accounting Guideline on the application of the full cost method of accounting. The Guideline required a change in the calculation of depletion and depreciation and ceiling tests to a country-by-country cost centre instead of the worldwide basis. The effect of the application of the ceiling test resulted in a write-down at December 31, 1986, of foreign exploration costs in the United States of \$1.3 million. (See Note 3 to the Consolidated Financial Statements).

Capital and Other Spending

The Company responded to the sharp drop in oil prices by reducing its capital expenditures on oil and gas exploration and development to \$8.7 million from \$17.1 million in 1985 and \$13.5 million in 1984, net of federal and provincial incentives. A high proportion of these costs were incurred in the first quarter of 1986 to qualify for federal and provincial petroleum incentive programs which expired on March 31. Prairie Oil will commence to increase its share of working interests in new joint plays in the Western Canadian Sedimentary Basin and in the Powder River Basin in the United States under an arrangement with its parent company, Norcen Energy Resources Limited.

Outlook

Crude oil prices are a dominant factor affecting the Company's future growth. World oil prices firmed in the third quarter of 1986, partially due to increased European demand and also due to the announcement by OPEC of an agreement to limit production and reduce oversupply on world markets. It is not clear how long the agreement can be maintained. In addition, due to competitive pricing, gas prices are expected to provide increased returns in the mid to long range.

Petroleum exploration and development are still profitable undertakings. Falling costs, increased efficiencies and changes in royalty and tax regimes contribute to an environment in which it is possible for the Company to expand its reserve base. In 1987, Prairie Oil plans to increase capital expenditures to near cash flow levels. The Company, with its sizable cash reserves and projected future cash flows, is well poised to take advantage of opportunities which may arise in exploration, development, reserve base enhancement or acquisitions.

Consolidated Balance Sheet

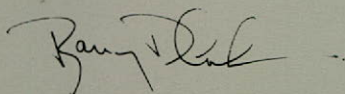
As at December 31, 1986 and 1985
(thousands of Canadian dollars)

	1986	1985
ASSETS		
Current Assets		
Cash and short-term investments	\$13,337	\$12,994
Accounts receivable	3,251	8,362
	16,588	21,356
Investments , at cost (quoted market value — \$4,018)	3,999	
Properties, plant and equipment (Note 2)	62,826	61,099
	\$83,413	\$82,455
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	\$ 954	\$ 2,119
Income taxes payable	1,480	1,393
Due to parent company	905	2,304
Current amount of deferred gas revenues	612	539
	3,951	6,355
Deferred gas revenues	3,879	4,570
Deferred income taxes	22,871	20,930
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized: An unlimited number of Common Shares		
Issued : 7,846,076 Common Shares	1,962	1,962
Contributed surplus	574	574
Retained earnings	50,176	48,064
	52,712	50,600
	\$83,413	\$82,455

Approved by the Board



Director



Director

Consolidated Statement of Earnings and Retained Earnings

Years Ended December 31, 1986,
1985 and 1984
(thousands of Canadian dollars
except per share amounts)

	1986	1985	1984
Sales and other revenues			
Oil and gas	\$12,124	\$18,515	\$16,557
Royalties	1,633	3,665	3,216
Interest and other	1,308	1,475	2,128
	15,065	23,655	21,901
Costs and expenses			
Production	2,440	2,015	1,468
Production revenue taxes	917	2,802	2,926
Depletion	4,695	4,334	3,129
Depreciation	957	838	730
General and administrative			
Charges from parent company	1,268	1,314	1,147
Other	124	133	160
Other financial expense	79	92	7
Write-down of non-productive assets (Note 3)	1,341		
	11,821	11,528	9,567
Earnings before income taxes	3,244	12,127	12,334
Income taxes (Note 4)			
Current (recovery)	(809)	1,836	2,210
Deferred	1,941	3,707	3,672
	1,132	5,543	5,882
Net earnings	2,112	6,584	6,452
Retained earnings, beginning of year	48,064	41,480	35,028
Retained earnings, end of year	\$50,176	\$48,064	\$41,480
Earnings per share	\$ 0.27	\$ 0.84	\$ 0.82

Management's Responsibility for Financial Statements

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 disclosure requirements 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.

Consolidated Statement of Changes in Financial Position

Years Ended December 31, 1986,
1985 and 1984
(thousands of Canadian dollars)

	1986	1985	1984
Cash generated			
Net earnings	\$ 2,112	\$ 6,584	\$ 6,452
Add non-cash items:			
Deferred income taxes	1,941	3,707	3,672
Depletion	4,695	4,334	3,129
Depreciation	957	838	730
Write-down of non-productive assets	1,341		
Cash generated from operations	11,046	15,463	13,983
Decrease in working capital (i)	2,707		1,210
Total cash available	13,753	15,463	15,193
Cash invested			
Investments	3,999		
Expenditures on properties, plant and equipment	10,095	21,219	16,685
Petroleum incentive payments earned	(1,375)	(4,090)	(3,144)
Increase in working capital (i)		4,451	
Deferred gas revenues	691	480	496
Total cash invested	13,410	22,060	14,037
Increase (decrease) in cash	343	(6,597)	1,156
Cash, beginning of year	12,994	19,591	18,435
Cash, end of year	\$13,337	\$12,994	\$19,591

(i) Working capital excludes cash and short-term investments.

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, 1986 and 1985 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the three years ended December 31, 1986. 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, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1986 in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
February 6, 1987

Thorne Ernst & Whinney
Chartered Accountants

Notes to Consolidated Financial Statements

Years Ended December 31, 1986,
1985 and 1984
(thousands of Canadian dollars)

1. Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Prairie Oil Royalties Company, Ltd. and its wholly-owned subsidiary, P.O.R. Oil & Gas Inc. 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.

Foreign Currency Translation

Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates. Long-term assets are translated at rates in effect at the dates the assets were acquired. Sales and other revenues and costs and expenses are translated at the average rate of exchange during the month incurred. The resulting gains and losses are included in earnings.

Properties, Plant and Equipment

Oil and gas properties, in accordance with the full cost method of accounting, include all expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted on 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 the relative energy content. Proceeds on sale of properties are credited to asset costs.

The net book value of oil and gas properties, plant and equipment less deferred income taxes is limited to an amount not exceeding the estimated future net revenue from proved reserves plus the cost, net of impairments, of unproved properties less estimated future administrative, financing and income tax costs.

Oil and gas production equipment and related facilities are depreciated over their estimated useful service life on the straight-line method at various rates, the application of which is equivalent to the composite rate of approximately 9.0% in 1986, 1985 and 1984.

Income Taxes

The Company follows the tax allocation method of accounting whereby provisions for income taxes are based on the earnings reported in the accounts. This method results in the provision of deferred income taxes to the extent that taxes currently payable have been reduced by claiming depletion and depreciation for income tax purposes in amounts differing from those reported in the accounts.

Deferred Gas Revenues

Deferred gas revenues represent payments received under take-or-pay gas contracts. These amounts are included in revenue when the gas to which the payments relate is delivered at the purchaser's option. Deliveries, which are to be made over a ten year period, commenced November 1984.

2. Properties, Plant and Equipment

	Year Ended December 31,	
	1986	1985
Properties	\$81,776	\$73,902
Production equipment	11,382	10,536
	93,158	84,438
Accumulated depreciation and depletion	30,332	23,339
Net book value	\$62,826	\$61,099

During the year, the Company capitalized \$1,789 (\$1,599 in 1985) of administrative overhead expenditures directly related to exploration and development activities.

3. Write-down of Non-Productive Assets

In September 1986, the Canadian Institute of Chartered Accountants issued an Accounting Guideline on the application of the full cost method of accounting. The Guideline dictates that country-by-country cost centres are the appropriate basis for the accumulation of costs for depletion and ceiling test purposes, whereas the Company has used a world-wide basis. Application of the ceiling test in accordance with the Guideline results in the writedown of exploration costs incurred in the United States, which have no supporting reserve base, in the amount of \$1,341.

Effective January 1, 1987, the Company will calculate depletion on a country-by-country basis.

Notes to Consolidated Financial Statements

Years Ended December 31, 1986,
1985 and 1984
(thousands of Canadian dollars)

4. Income Taxes

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial statement purposes. The source of these differences and the tax effect of each are as follows:

	1986	1985	1984
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	\$ 1,938	\$ 3,701	\$ 3,638
Other items	3	6	34
	\$ 1,941	\$ 3,707	\$ 3,672

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 of 46% to earnings before income taxes for the following reasons:

	1986	1985	1984
Earnings before income taxes	\$ 3,244	\$12,127	\$12,334
Canadian federal statutory rate of income tax	46.0%	46.0%	46.0%
Computed income tax expense	\$ 1,492	\$ 5,578	\$ 5,674
Increase (decrease) in income tax resulting from:			
Alberta Royalty Tax Credit	(2,181)	(2,000)	(2,000)
Non-deductible production revenue taxes	422	1,251	1,346
Non-deductible royalties, mineral taxes and other expenses, less federal resource allowance and provincial rebates	475	629	551
Other, net	924	85	311
Actual income tax expense	\$ 1,132	\$ 5,543	\$ 5,882
Effective income tax rate	34.9%	45.7%	47.7%

Supplemental Information

Years Ended December 31, 1986 and 1985
(unaudited)
(thousands of Canadian dollars
except per share amounts)

Quarterly and Other Financial Data

	Quarter				Year
	First	Second	Third	Fourth	
1986					
Revenue	\$5,048	\$3,125	\$3,331	\$3,561	\$15,065
Earnings before income taxes	2,192	473	901	(322)	3,244
Net earnings	1,673	624	730	(915)	2,112
Earnings per share	0.21	0.08	0.09	(0.11)	0.27
Market price per common share (i)					
High	5 $\frac{7}{8}$	5 $\frac{7}{8}$	5 $\frac{7}{8}$	6 $\frac{1}{2}$	6 $\frac{1}{2}$
Low	3 $\frac{7}{8}$	4 $\frac{3}{4}$	4	4 $\frac{3}{4}$	3 $\frac{7}{8}$
1985					
Revenue	\$5,795	\$6,031	\$5,470	\$6,359	\$23,655
Earnings before income taxes	3,138	2,945	3,035	3,009	12,127
Net earnings	1,701	1,592	1,878	1,413	6,584
Earnings per share	0.22	0.21	0.24	0.17	0.84
Market price per common share (i)					
High	6 $\frac{3}{4}$	7 $\frac{5}{8}$	7	6 $\frac{7}{8}$	7 $\frac{5}{8}$
Low	6	5 $\frac{3}{4}$	6	5 $\frac{1}{8}$	5 $\frac{1}{8}$

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

Oil and Gas Information

The following unaudited supplementary information is disclosed in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement No. 69 "Disclosures about Oil and Gas Producing Activities".

Exploration and Production Activities

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

	1986	1985
Properties		
— Proved	\$73,902	\$64,514
— Unproved	7,874	9,388
Production equipment	11,382	10,536
	93,158	84,438
Accumulated depreciation, depletion and amortization	30,332	23,339
Capitalized costs	\$62,826	\$61,099



Supplemental Information

Years Ended December 31, 1986, 1985 and 1984
(unaudited)
(thousands of Canadian dollars)

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

	1986	1985	1984
Costs capitalized in the year			
Property acquisition	\$ 800	\$ 4,649	\$ 4,856
Exploration (i) — Proved	5,330	5,724	1,581
— Unproved	796	4,386	5,002
Development (i)	1,794	2,370	2,102
Total capitalized	\$ 8,720	\$17,129	\$13,541

(i) Exploration and development costs are shown net of petroleum incentive payments earned of \$1,375 in 1986 (\$4,090 in 1985; \$3,144 in 1984).

	1986	1985	1984
Net revenues from producing oil and gas			
Revenue	\$17,227	\$28,881	\$26,610
Production expenses (i)	7,023	11,624	11,276
Depreciation, depletion and amortization expense (ii)	5,652	5,172	3,859
	4,552	12,085	11,475
Income tax expense	1,038	5,391	5,191
Results of operations from producing activities (excluding corporate overhead and interest costs)	\$ 3,514	\$ 6,694	\$ 6,284

(i) Production expenses include oil and gas operating expenses, production revenue taxes as well as freehold and crown royalty payments of \$3,665 in 1986 (\$6,807 in 1985; \$6,882 in 1984).

(ii) Depletion expense per equivalent barrel was \$4.05 in 1986 (\$3.82 in 1985; \$2.83 in 1984) under the unit of production method of depletion.

Reserves

The reserve information provided below, as determined by independent reservoir engineers McDaniels & Associates Consultants Ltd., is provided in response to United States reporting requirements on a proved reserve basis only, after deducting royalty interests of governments and others. All the Company's proved reserves are developed. The reserve quantity information summarizes the changes in quantities of net proved Canadian oil and gas reserves.

	1986		1985		1984	
	Oil and Gas Liquids	Gas	Oil and Gas Liquids	Gas	Oil and Gas Liquids	Gas
	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)
Beginning of year	2,902	33,936	2,280	37,902	2,061	38,528
Revision of previous estimates	652	2,519	840	(2,208)	500	388
Extensions, discoveries and other additions	119	43	233	490	138	858
Production	(508)	(2,199)	(451)	(2,248)	(419)	(1,872)
End of year	3,165	34,299	2,902	33,936	2,280	37,902

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 Canadian cash flows, prices and costs in effect at December 31, 1986, were applied to proved reserves 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 Canadian cash flows are derived by applying a 10% discount factor, as required by the FASB Statement No. 69 rules, to the future net Canadian 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% discount rate is arbitrary and prices constantly change from year-end levels.

	1986	1985	1984
	(millions of Canadian dollars)		
Future cash inflows	\$164.6	\$223.8	\$221.9
Future production costs	(63.9)	(82.1)	(102.8)
Future development costs	(2.8)	(2.9)	(2.5)
Future income tax expense	(38.6)	(58.9)	(59.9)
Future net cash flows	\$ 59.3	\$ 79.9	\$ 56.7
Standardized measure of future net cash flows discounted at 10%	\$ 33.1	\$ 47.1	\$ 31.9

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

	1986	1985	1984
	(millions of Canadian dollars)		
Sales of oil and gas and value of transfers	\$(10.0)	\$(16.3)	\$(15.3)
Net changes in prices and production costs	(26.5)	5.2	2.0
Extensions, discoveries and improved recovery, less related costs	1.2	4.6	3.2
Development costs incurred during the period	.2	.3	.4
Revisions of previous quantity estimates	5.1	17.6	10.7
Accretion of discount	4.7	3.2	2.7
Net changes in income taxes	11.3	.6	1.1
Net increase (decrease)	(14.0)	15.2	4.8
Beginning of period	47.1	31.9	27.1
End of period	\$ 33.1	\$ 47.1	\$ 31.9

Selected Financial and Operating Data

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

Years Ended December 31	1986		1985		1984		1983		1982	
Revenue										
Oil sales	\$ 7,772		\$13,224		\$11,474		\$ 8,282		\$ 5,025	
Gas sales	4,352		5,291		5,083		3,214		5,516	
Royalties	1,633		3,665		3,216		3,038		2,274	
Interest and other	1,308		1,475		2,128		1,351		261	
	15,065		23,655		21,901		15,885		13,076	
Expenses										
Production revenue taxes	917		2,802		2,926		2,027		1,759	
Production and administration	3,832		3,462		2,775		2,534		2,237	
Depreciation and depletion	5,652		5,172		3,859		2,544		2,078	
Other financial expense	79		92		7		36		48	
Write-down of non-productive assets	1,341									
Income taxes	1,132		5,543		5,882		2,389		1,218	
	12,953		17,071		15,449		9,530		7,340	
Net earnings	\$ 2,112		\$ 6,584		\$ 6,452		\$ 6,355		\$ 5,736	
Cash flow	\$11,046		\$15,463		\$13,983		\$11,297		\$10,141	
Capital expenditures (1)										
Exploration and property acquisitions	\$ 7,874		\$15,869		\$12,408		\$ 5,197		\$ 3,293	
Plant and equipment	846		1,260		1,133		432		1,391	
Total assets	\$83,413		\$82,455		\$76,126		\$62,100		\$50,837	
Production (before royalties)										
Crude oil and natural gas liquids (barrels per day)	1,827		1,660		1,516		1,247		961	
Natural Gas (Mcf per day)	8,078		8,674		7,284		4,782		7,230	
Common shares										
Issued and outstanding	7,846,076		7,846,076		7,846,076		7,846,080		7,846,080	
Number of shareholders (2)	693		705		719		756		950	
Earnings per share	\$ 0.27		\$ 0.84		\$ 0.82		\$ 0.81		\$ 0.73	
Market prices										
American Stock Exchange (U.S. \$)	1986		1985		1984		1983		1982	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st Quarter	5⁷/₈	3³/₈	6 ³ / ₄	6	5 ¹ / ₂	4 ⁵ / ₈	5 ¹ / ₈	3 ⁷ / ₈	3 ³ / ₈	2 ³ / ₄
2nd Quarter	5⁷/₈	4³/₄	7 ⁵ / ₈	5 ³ / ₄	6 ³ / ₈	5 ¹ / ₈	6 ¹ / ₄	4 ³ / ₈	4	3
3rd Quarter	5³/₈	4	7	6	7 ¹ / ₈	5 ⁵ / ₈	5 ⁵ / ₈	5	3 ⁵ / ₈	2 ⁷ / ₈
4th Quarter	6¹/₂	4³/₄	6 ⁵ / ₈	5 ¹ / ₈	7 ³ / ₄	6	5 ⁵ / ₈	4 ⁷ / ₈	4 ¹ / ₂	2 ⁷ / ₈
Toronto Stock Exchange (Cdn. \$)	1986		1985		1984		1983		1982	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st Quarter	7¹/₂	6⁵/₈	9 ¹ / ₄	8 ¹ / ₂	6 ³ / ₄	6 ¹ / ₈	5 ¹ / ₄	5 ¹ / ₄	no sales	
2nd Quarter	8	6¹/₄	10 ¹ / ₄	7 ³ / ₈	7 ⁷ / ₈	6 ¹ / ₂	7 ¹ / ₂	5 ¹ / ₂	no sales	
3rd Quarter	7¹/₂	6¹/₄	9 ¹ / ₈	8 ³ / ₈	7 ⁵ / ₈	7 ³ / ₈	7	6 ¹ / ₄	5 ¹ / ₂	4 ⁵ / ₈
4th Quarter	8³/₄	7	8 ¹ / ₂	7 ¹ / ₈	10 ¹ / ₂	8 ³ / ₈	6 ¹ / ₈	6 ¹ / ₄	5 ¹ / ₂	4 ³ / ₄

Notes:

(1) Capital expenditures are net of petroleum incentive payments earned.

(2) Number of shareholders as at March 2, 1987 — 685.

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

Corporate Information

Board of Directors

Donald D. Barkwell

Calgary, Alberta
Executive Vice-President
and Chief Operating Officer
Norcen Energy Resources Limited

Edward A. Galvin*

Calgary, Alberta
Chairman of the Board
Poco Petroleum Ltd.

Barry D. Cochrane*

Calgary, Alberta
Senior Vice-President
Exploration and Production
Norcen Energy Resources Limited

Frederick A. McKinnon*

Calgary, Alberta
Director of various companies

Clifford A. Rae, Q.C.

Calgary, Alberta
Barrister & Solicitor

David M. Tyerman, Q.C.

Regina, Saskatchewan
Barrister & Solicitor
MacPherson, Leslie & Tyerman

* Member of the Audit Committee

Corporate Officers

Donald D. Barkwell

Chairman of the Board

Barry D. Cochrane

President

Gordon B. Singer

Vice-President, Comptroller

David M. Tyerman, Q. C.

Secretary

D. Stephen Muir

Treasurer

William T. Kilbourne

Assistant Secretary

Linda G. Swan

Assistant Secretary

Beatrice A. Reitzel

Assistant Treasurer

Robert J. Breen

Assistant Treasurer

Executive Office

715 Fifth Avenue Southwest
Calgary, Alberta, T2P 2X7

Registered Office

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

Registrars & Transfer Agents

The Canada Trust Company
Regina, Saskatchewan and
Toronto, Ontario

Morgan Shareholder Services
Trust Company
New York, U.S.A.

Auditors

Thorne Ernst & Whinney
Calgary, Alberta

Stock Exchange Listings

(Symbol-POY)
Toronto Stock Exchange
American Stock Exchange

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

