PRAIRIE OIL ROYALTIES COMPANY, LTD.

ANNUAL REPORT 1985

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held on Friday, May 2, 1986, at 10:30 o'clock in the forenoon, local time, in the Boardroom of Norcen Energy Resources Limited, Nineteenth 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, 1985, 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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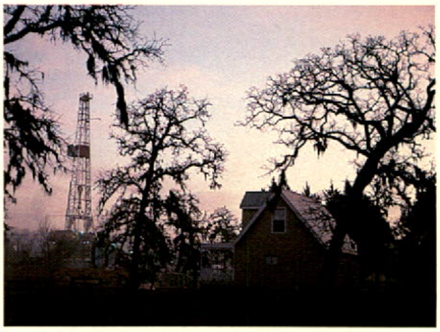
HIGHLIGHTS

	1985	1984
FINANCIAL	(thousands of Canadian dollars except per share amounts)	
Revenue	$23,655	$21,901
Net income	6,584	6,452
Net income per share	0.84	0.82
Cash flow	15,463	13,983
Working capital	15,001	17,147
Total assets	82,455	76,126
PRODUCTION		
Crude oil and natural gas liquids — barrels per day	1,660	1,516
Natural gas — mcf per day	8,674	7,284



REPORT TO SHAREHOLDERS

W. C. Hennenfent, President (standing) and D. D. Barkwell, Chairman.

The Company again recorded increases in revenue, net income and cash flow as compared to the previous year. Revenue from all sources totalled $23.7 million, an eight per cent increase over 1984. Net income was $6.6 million or $0.84 per share, compared with $6.5 million or $0.82 per share in 1984. Cash flow from operations increased 11 per cent to $15.5 million from $14.0 million in the previous year.

While average daily production of crude oil and natural gas liquids increased by 9.5 per cent, and a significant increase in natural gas production was realized, net income did not increase proportionately mainly due to increased costs of production and higher costs incurred to add new reserves. Production costs increased by 37 per cent, mainly as a result of new and increased production and also due to increased expenditures on municipal taxes and insurance premiums. Average daily production of crude oil and natural gas liquids was 1,660 barrels, up from an average of 1,516 barrels per day in the previous year. This increase arose from escalation in production from wells at Gilwood-Triangle and Taber North in Alberta as well as new production from Sandbar East in Wyoming.

The Company received an average price of $34.97 per barrel from the sale of its 1985 crude oil and gas liquids production. This price is equal to the average price obtained during 1984. Deregulation by Canadian federal and provincial governments had little effect on average prices as the increase from the Conventional Old Oil Price was offset by the decline in the New Oil Reference Price.

During the year, natural gas production increased 19.1 per cent, from approximately 7.3 million cubic feet per day to approximately 8.7 million cubic feet per day.

Average prices for natural gas decreased from $2.71 per thousand cubic feet in 1984 to $2.42 in 1985. The primary cause of the decrease was lower prices on export volumes to the United States.

The Company's estimated reserves at year-end, before royalties, were 4.3 million barrels of crude oil and natural gas liquids, and 59 billion cubic feet of natural gas. This compares with 3.4 million barrels and 59 billion cubic feet in 1984. These estimates were prepared by engineers of the parent company, Norcen Energy Resources Limited, and do not include the Company's share of natural gas reserves in the Arctic Islands.

Energy Policy

In 1985, the federal and provincial governments acted decisively to reduce taxation and regulation to allow market forces to play a more integral role in industry decision-making.

These changes included the deregulation of crude oil pricing, introduction of more flexible criteria for the export of natural gas, elimination of Petroleum Gas Revenue Tax ("PGRT") for new production, phasing out of PGRT on current production, reductions in royalty rates, and the introduction of new provincial incentives. This removes a number of restrictions on industry growth and creates a policy framework within which industry can operate more effectively.

Outlook

The weakness of international oil prices presents the greatest uncertainty for the oil and gas industry in the immediate future. Prices declined significantly in the first quarter from those at December 31, 1985. The December, 1985, prices were used for present worth values referred to in the accounting policies to the financial statements. Exploration and development budgets are appraised on a regular basis, and will be adjusted in response to changes in pricing. The impact of declining prices on the Company will be moderated somewhat by gains in production and reductions in taxation.

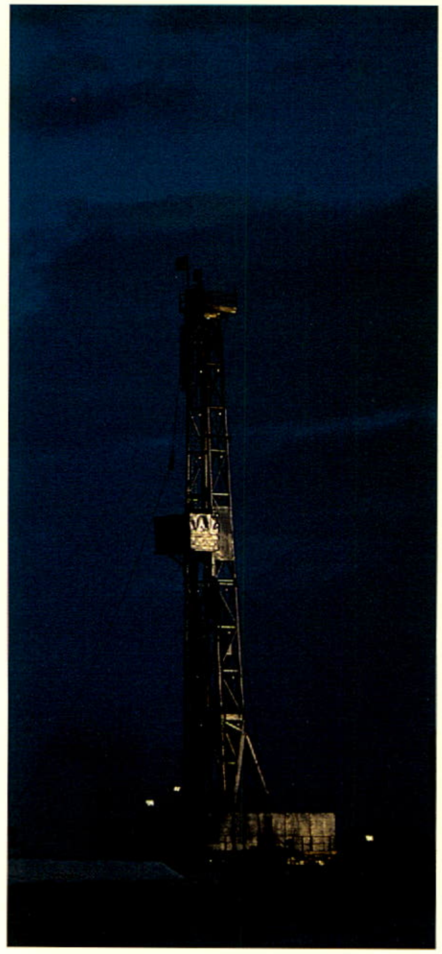
Gas production was up largely due to policy changes which allowed more competitive pricing of natural gas exports to the United States. Prices in the United States will continue to face downward pressure as a result of a persistent surplus, and deregulation in Canada will result in the softening of domestic prices. Competitive pricing of natural gas in both domestic and export markets should result in further volume gains.

On behalf of the Board

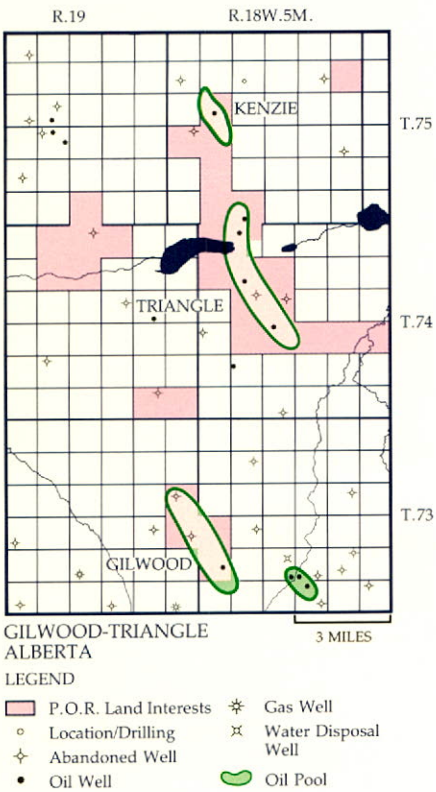
Donald D. Barkwell
Chairman

William C. Hennenfent
President

Calgary, Alberta
March 6, 1986



EXPLORATION AND DEVELOPMENT



In 1985, capital expenditures for exploration and development totalled $21,219,000 (gross), or $17,129,000 net after federal and provincial incentives, representing increases of 27 per cent and 26 per cent from 1984.

Major areas of activity were the Gilwood-Triangle, Whitebear, and Rainbow regions in Western Canada and the Sandbar East field in Wyoming.

The Company participated in the drilling of 57 (11.90 net) exploratory wells resulting in 16 (2.62 net) oil wells and 4 (.29 net) gas wells during 1985. Included in these figures are 11 (.25 net) wells drilled at no cost to Prairie Oil on Company lands under farmout arrangements. Additionally, the Company participated in the drilling of 159 development wells, in which the Company's interest was very small, resulting in .97 net wells. Drilling activity included participation in 11 wells in the United States.

The following details principal areas in which the Company conducted operations in 1985:

Gilwood-Triangle

During the year, the Company participated in the drilling of three oil wells in this northern Alberta area. The first of these wells, in which Prairie Oil has an 80 per cent interest, qualifies for five years of royalty-free production and is producing at 88 barrels per day (70 barrels per day net to the Company). The second well is producing 158 barrels per day (36 barrels net at the Company's 22.5 per cent interest) and the third is producing 70 barrels per day (32 barrels per day net at the Company's 45 per cent interest). This well also qualifies for a five year royalty holiday.

An extensive seismic program will be undertaken to define further locations in the general area.

Whitebear

The Company successfully followed up its Mississippian oil discovery of 1984 in the Whitebear area of southeastern Saskatchewan. Prairie Oil holds a 30 per cent interest in the prospect and participated in the acquisition of three additional quarter-sections of land offsetting the discovery. Two additional wells have been drilled in the area in 1985, one of which is currently in production.

Rainbow

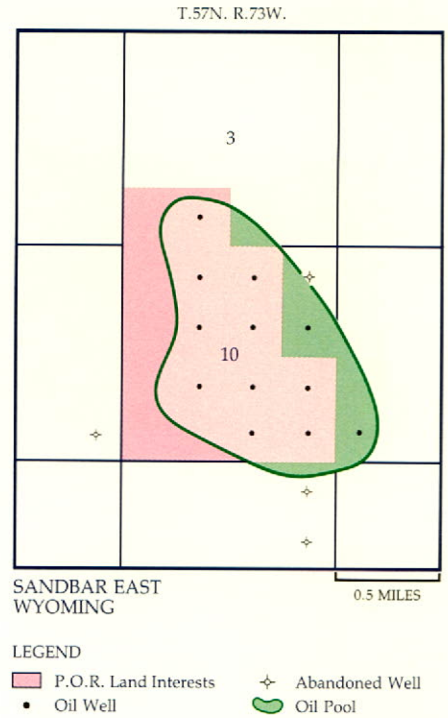
In 1985, two wells were drilled in the Rainbow area in northwestern Alberta. One well, in which the Company has a 7.5 per cent net interest, was completed as an oil well while an 18 per cent net interest is held in the second, which was completed as a gas well.

United States

Through its wholly-owned subsidiary, P.O.R. Oil & Gas Inc., the Company participated in the drilling of 11 wells in the United States during 1985. Focusing on the Bitter Creek Minnelusa discovery of 1984, nine (.35 net) wells were successful oil producers in the Sandbar East field in northern Wyoming. Unitization of this pool is currently being undertaken, with P.O.R Oil & Gas Inc. having an interest in 10 of the 12 producing wells. At the end of 1985, the Company had an interest in 33,676 gross (2,675 net) acres concentrated in the Powder River Basin of Wyoming.

1986 Exploration and Development

Capital expenditures for exploration and development in the coming year of $18,796,000 (gross), representing net expenditures of $16,278,000, after receipt of federal and provincial incentives were approved by the Company's Board of Directors in December, 1985. The major portion of these funds has been allocated for Canadian exploration and development activities while operations in the United States are expected to continue at their current level. Due to declining oil prices, exploration and development budgets will be reviewed on a regular basis and, following Company policy, will be kept in line with its cash flow.



OIL AND GAS LANDHOLDINGS

	DEVELOPED*		UNDEVELOPED				TOTAL	
	Leases		Leases		Reservations and Permits			
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	234,697	38,081	501,848	76,263	240,974	45,837	977,519	160,181
British Columbia	26,891	1,827	52,719	4,335	8,451	634	88,061	6,796
Saskatchewan	11,003	1,280	87,055	39,370	—	—	98,058	40,650
Manitoba	1,520	340	93,368	26,870	—	—	94,888	27,210
Ontario	—	—	1,545	406	—	—	1,545	406
Arctic Islands	—	—	—	—	2,891,547	87,018	2,891,547	87,018
Northwest Territories	—	—	—	—	25,158	786	25,158	786
United States	4,868	329	28,808	2,346	—	—	33,676	2,675
	278,979	41,857	765,343	149,590	3,166,130	134,275	4,210,452	325,722

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

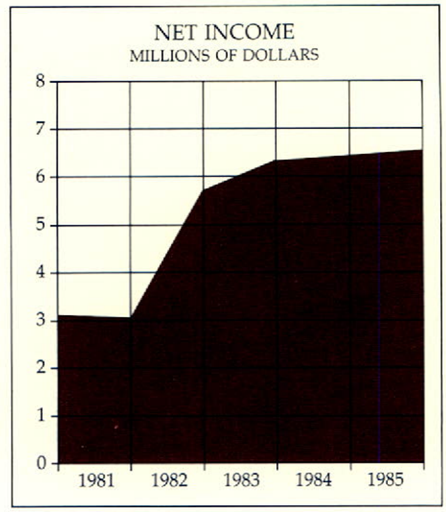
At December 31, 1985, the Company owned interests in 4,210,452 gross (325,722 net) acres as shown in detail in the summary above. This compares with 3,981,996 gross (316,642 net) acres at the end of 1984. In addition, the Company holds royalty interests in 189,884 gross acres.

DRILLING SUMMARY

The following table sets forth the gross and net exploratory and development wells in which the Company participated during the five year period ended December 31, 1985.

	Exploratory Wells				Development Wells			
		Net Wells				Net Wells		
Year	Gross Wells	Oil	Gas	Dry Holes	Gross Wells	Oil	Gas	Dry Holes
1981	44	.62	.82	3.05	4	.50	.13	.37
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
	245	9.13	2.54	26.23	271	4.09	.25	2.45

As at December 31, 1985, the Company had working interests in 476 gross (12 net) producing oil wells and 374 gross (56 net) producing gas wells (including 92 gross (15 net) shut-in gas wells) all in Western Canada, working interests in 14 gross (0.5 net) producing oil wells in the United States, and royalty interests in 400 gross (10 net) producing oil wells and 14 gross (0.5) producing gas wells, most of which were in the Province of Saskatchewan.



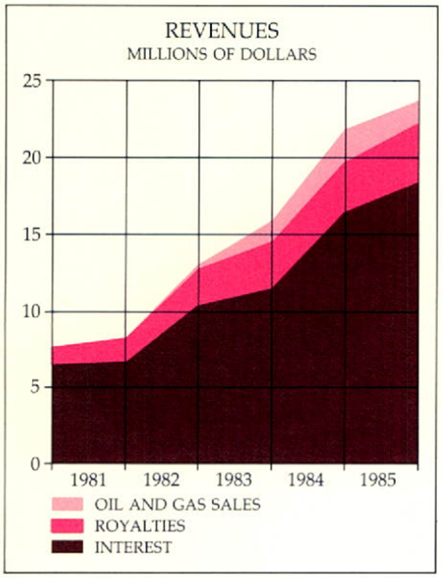
Net income increased from $6.6 million or $0.84 per share in 1985 as compared to $6.5 million or $0.82 per share and $6.4 million or $0.81 per share in 1984 and 1983 respectively. Cash generated from operations was a record $15.5 million which reflects an increase of $1.5 million over 1984 and $4.2 million over 1983. Despite lower gas prices, increased production expenses and higher costs of adding new reserves, earnings increased due to greater oil and gas production.

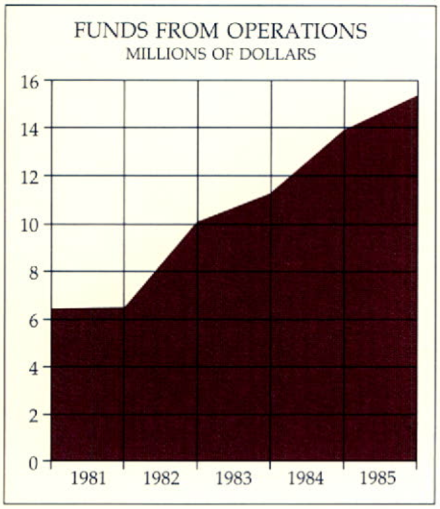
On March 28, 1985, a new agreement ("the Western Accord") was announced by the federal government and the Governments of Alberta, British Columbia and Saskatchewan. This agreement provided for the deregulation of crude oil pricing on June 1, 1985, reductions in production revenue taxes and elimination of the Petroleum Incentives Program. Subsequent announcements by the Government of Alberta provided for a program of reduced royalties and new incentives for exploration and development drilling. The federal government further announced gas deregulation commencing in 1986. While the benefit of these agreements and programs was not significant to the current year's results, it improved asset values significantly and will reduce the royalty and taxation burden on production revenues in future years.

Revenues and Expenses

Sales revenues increased 8 per cent over 1984 after an increase of 38 per cent in 1984 over 1983 due to higher production volumes. Oil and gas liquids production was 1,660 barrels per day, up from 1,516 barrels per day in 1984. The areas with significant production increases were Taber North, Gilwood-Triangle and new production from the United States operations in Sandbar East, Wyoming. The average price received remained relatively constant. Crown royalties declined on account of lower rates at the enhanced oil recovery project at West Pembina as well as the gradual phase-in of the new provincial royalty regime. Gas revenues increased due to a 19 per cent growth in production to 8.7 mmcf per day. Production from Verger and Yo-Yo, as well as sales to industrial users from Cherhill account for the majority of the 1.4 mmcf per day increase. Interest income declined $0.7 million from levels reached in 1984 due to a $6.6 million decline in cash and short-term investments which has been invested in increased levels of properties, equipment and working capital.

Production expenses increased by 37 per cent over 1984 in comparison to a 2 per cent increase in 1984 over 1983. New production from various areas including Gilwood-Triangle, Minnehik-Buck Lake, Little Bow and Hesporo as well as increased production from Verger and Taber North are the primary factors accounting for this increase in excess of normal inflation. Expenditures on municipal taxes and insurance premiums also contributed significantly to the increased production expenses.





Production revenue taxes decreased in absolute dollars and in relation to production revenues. This was partly the effect of the Western Accord which exempted from the PGRT all new production from April, 1985, and partly due to increased operating cost deductions. Depreciation and depletion increases reflect the ongoing effects of Prairie's capital expenditure program and the increasing cost of adding new reserves as well as higher levels of production.

Prairie's effective tax rate for 1985 was reduced to 45.7 per cent from 47.7 per cent in 1984 and 27.3 per cent in 1983. This was primarily due to declines in non-deductible production revenue taxes and tax reduction arrangements with third parties.

Capital and Other Spending

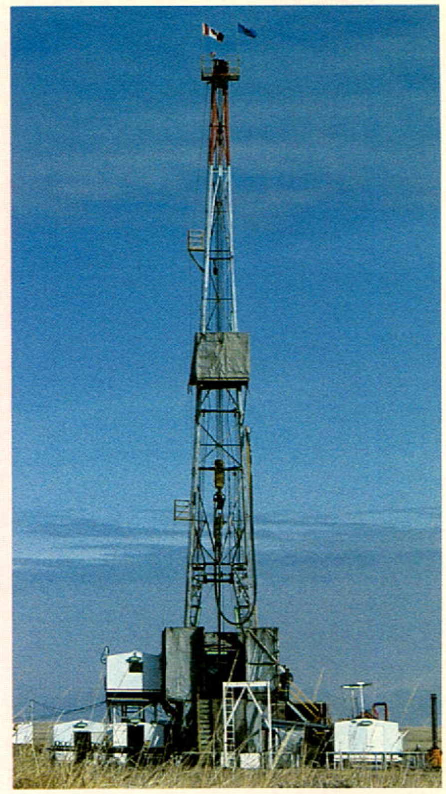
Capital expenditures on oil and gas exploration and development before federal and provincial incentives increased to $21.2 million from $16.7 million in 1984 and $6.3 million in 1983. The Company continues to take an increasing share in the working interests of new joint plays in the Western Canadian Sedimentary Basin and in the Powder River Basin in the United States under its arrangement with its parent company, Norcen Energy Resources Limited. The funds for its capital programs are derived from internal cash generated from operations with the excess drawn from its cash and short-term investments on hand.

Outlook

Weak international oil prices present the greatest uncertainty for the oil and gas industry in the short term. Prices declined significantly in the first quarter from those at December 31, 1985. The December, 1985, prices were used for present worth values referred to in the accounting policies to the financial statements. Gas production was up due to more competitive pricing of natural gas exports to the United States. Prices in the United States and Canada will continue to face downward pressure.

ACCOUNTING POLICIES

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983



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 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 for giving 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 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.

Certain prior years' comparative figures have been reclassified to conform with the financial statement presentation adopted for 1985.

Foreign Currency Translation

Current assets and current 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 income.

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. As set out in Note 2, commencing January 1, 1985, these costs are depleted on the unit of production method based on total estimated proven 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.

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 1985 (9.0% in 1984; 8.6% in 1983).

The net book value of oil and gas properties, plant and equipment does not exceed the estimated present worth value of future net revenues from proven reserves plus the lower of cost or estimated fair value of unproved properties.

Income Taxes

The Company follows the tax allocation method of accounting whereby provisions for income taxes are based on the income 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 in November, 1984.

CONSOLIDATED BALANCE SHEET

	As at December 31, 1985	As at December 31, 1984
	(thousands of Canadian dollars)	
Assets		
CURRENT ASSETS		
Cash and short-term investments	$12,994	$19,591
Accounts receivable	8,362	7,393
	21,356	26,984
PROPERTIES, PLANT AND EQUIPMENT (Note 2)	61,099	49,142
	$82,455	$76,126
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued charges	$ 2,119	$ 3,391
Income taxes payable	1,393	329
Due to parent company	2,304	5,517
Current amount of deferred gas revenues	539	600
	6,355	9,837
DEFERRED GAS REVENUES	4,570	5,050
DEFERRED INCOME TAXES	20,930	17,223
Shareholders' Equity		
CAPITAL STOCK (Note 3)		
Issued		
7,846,076 Common Shares	1,962	1,962
CONTRIBUTED SURPLUS	574	574
RETAINED EARNINGS	48,064	41,480
	50,600	44,016
	$82,455	$76,126

Approved by the Board

Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Years ended December 31,		
	1985	1984	1983
	(thousands of Canadian dollars except per share amounts)		
SALES AND OTHER REVENUES			
Oil and gas sales	$18,515	$16,557	$11,496
Royalties	3,665	3,216	3,038
Interest	1,475	2,128	1,351
	23,655	21,901	15,885
COSTS AND EXPENSES			
Production	2,015	1,468	1,438
Production revenue taxes	2,802	2,926	2,027
Depletion	4,334	3,129	1,878
Depreciation	838	730	666
General and administrative			
Charges from parent company	1,314	1,147	1,003
Other	133	160	93
Other financial expense	92	7	36
	11,528	9,567	7,141
Income before income taxes	12,127	12,334	8,744
Income taxes (Note 4)			
Current (recovery)	1,836	2,210	(9)
Deferred	3,707	3,672	2,398
	5,543	5,882	2,389
NET INCOME	6,584	6,452	6,355
RETAINED EARNINGS, BEGINNING OF YEAR	41,480	35,028	28,673
RETAINED EARNINGS, END OF YEAR	$48,064	$41,480	$35,028
EARNINGS PER SHARE (Note 3)	$ 0.84	$ 0.82	$ 0.81

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1985	1984	1983
	(thousands of Canadian dollars)		
CASH GENERATED			
Net income	$ 6,584	$ 6,452	$ 6,355
Add non-cash items:			
Deferred income taxes	3,707	3,672	2,398
Depletion	4,334	3,129	1,878
Depreciation	838	730	666
Cash generated from operations	15,463	13,983	11,297
Decrease in working capital(i)	—	1,210	6,212
Deferred gas revenues	—	—	233
Note receivable	—	—	622
TOTAL CASH AVAILABLE	15,463	15,193	18,364
CASH INVESTED			
Expenditures on properties, plant and equipment	21,219	16,685	6,253
Petroleum incentive payments earned	(4,090)	(3,144)	(624)
Increase in working capital(i)	4,451	—	—
Deferred gas revenues	480	496	—
TOTAL CASH INVESTED	22,060	14,037	5,629
INCREASE (DECREASE) IN CASH	(6,597)	1,156	12,735
CASH(ii) AT BEGINNING OF YEAR	19,591	18,435	5,700
CASH(ii) AT END OF YEAR	$12,994	$19,591	$18,435

Years ended December 31,

(i) Working capital excludes cash and short-term investments.
(ii) Cash includes 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, 1985 and 1984, and the consolidated statements of income and retained earnings and changes in financial position for each of the three years ended December 31, 1985. 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, 1985 and 1984, and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1985, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
January 31, 1986

Thorne Riddell
Chartered Accountants

Years Ended
December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

1. ACCOUNTING POLICIES

The summary of accounting policies on pages 9 and 10 is an integral part of these financial statements.

2. PROPERTIES, PLANT AND EQUIPMENT

	Years Ended December 31, 1985	1984
Properties	$73,902	$58,033
Production equipment	10,536	9,276
	84,438	67,309
Accumulated depreciation and depletion	23,339	18,167
Net book value	$61,099	$49,142

From 1981 to 1984 through the period of the National Energy Program which provided for a contractual pricing structure for oil and gas production, the Company depleted its oil and gas assets on the net production revenue method based on total estimated future production revenues from proven recoverable reserves. As a result of the March 28, 1985, Western Accord between the provincial and federal governments which provided for the deregulation of oil pricing commencing June 1, 1985, and future deregulation of gas market pricing, the Company, effective January 1, 1985, reverted to the unit of production method of depletion which had been the method used prior to 1981. The effect of this change is not significant to the current year's results.

During the year, the Company capitalized $1,599 ($1,493 in 1984) of overhead charges related to exploration activities.

3. CAPITAL STOCK

The shareholders of the Company approved a four-for-one stock split on the common shares of the Company, effective January 8, 1985. Earnings per share amounts have been calculated giving retroactive effect to this stock split.

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:

	1985	1984	1983
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	$3,701	$3,638	$2,070
Other items	6	34	328
	$3,707	$3,672	$2,398

The provision for income taxes in the consolidated statement of income and retained earnings varies from the amount that would be computed by applying the Canadian federal statutory rate of 46% to income before income taxes for the following reasons:

	1985	1984	1983
Income before income taxes	$12,127	$12,334	$ 8,744
Canadian federal statutory rate of income tax	46.0%	46.0%	46.0%
Computed income tax expense	$ 5,578	$ 5,674	$ 4,027
Increase (decrease) in income tax resulting from:			
Alberta Royalty Tax Credit	(2,000)	(2,000)	(3,141)
Non-deductible production revenue taxes	1,251	1,346	932
Non-deductible royalties, mineral taxes and other expenses, less federal resource allowance and provincial rebates	629	551	448
Other, net	85	311	123
Actual income tax expense	$ 5,543	$ 5,882	$ 2,389
Effective income tax rate	45.7%	47.7%	27.3%

SUPPLEMENTAL INFORMATION (UNAUDITED)

Years Ended
December 31, 1985, 1984 and 1983
(thousands of Canadian dollars
except per share amounts)

QUARTERLY AND OTHER FINANCIAL DATA

	Quarter				
	First	Second	Third	Fourth	Year
1985					
Revenue	$ 5,795	$ 6,031	$ 5,470	$ 6,359	$23,655
Income before income taxes	3,138	2,945	3,035	3,009	12,127
Net income	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	6¾	7⅝	7	6⅝	7⅝
Low	6	5¾	6	5⅛	5⅛
1984					
Revenue	$ 5,370	$ 4,882	$ 5,333	$ 6,316	$21,901
Income before income taxes	3,165	2,692	3,084	3,393	12,334
Net income(ii)	1,656	1,407	1,612	1,777	6,452
Earnings per share(ii)	0.21	0.18	0.20	0.23	0.82
Market price per common share(i)					
High	5½	6⅜	7⅛	7¾	7¾
Low	4⅝	5⅛	5⅝	6	4⅝

(i) The market prices are as reported by the American Stock Exchange (the primary market) in U.S. dollars and retroactively reflect the January 8, 1985, four-for-one stock split of the common shares of the Company.

(ii) Net income and earnings per share for each quarter in 1984 have been restated to give effect to the actual rates of income taxes used in the annual financial statements at December 31, 1984, instead of the projected rates used at the time of completing the quarterly statements. The restatement has no effect on the annual results at December 31, 1984. The earnings per share amounts retroactively reflect the January 8, 1985, four-for-one stock split of the common shares of the Company.

OIL AND GAS INFORMATION

Years Ended
December 31, 1985, 1984 and 1983
(thousands of Canadian dollars
except where otherwise indicated)

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:

	December 31, 1985	December 31, 1984
Properties		
— Proven	$64,514	$53,031
— Unproven	9,388	5,002
Production equipment	10,536	9,276
	84,438	67,309
Accumulated depreciation, depletion and amortization	23,339	18,167
Capitalized costs	$61,099	$49,142

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

	1985	1984	1983
Costs capitalized in the year			
Property acquisition	$ 4,649	$ 4,856	$ 1,230
Exploration(i) — Proven	5,724	1,581	3,407
— Unproven	4,386	5,002	—
Development(i)	2,370	2,102	992
Total capitalized	$17,129	$13,541	$ 5,629

(i) Exploration and development costs are shown net of petroleum incentive payments earned of $4,090 in 1985 ($3,144 in 1984; $624 in 1983).

	1985	1984	1983
Net revenues from producing oil and gas			
Revenue	$28,881	$26,610	$19,431
Production expenses(i)	11,624	11,276	8,362
Depreciation, depletion and amortization expense(ii)	5,172	3,859	2,544
	12,085	11,475	8,525
Income tax expense	5,391	5,191	2,169
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 6,694	$ 6,284	$ 6,356

(i) Production expenses include oil and gas operating expenses, production revenue taxes as well as freehold and crown royalty payments of $6,807 in 1985 ($6,882 in 1984; $4,897 in 1983).

(ii) Depletion expense per equivalent barrel was $3.82 in 1985 ($2.83 in 1984; $2.34 in 1983) 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 proven reserve basis only, after deducting royalty interests of governments and others. All the Company's proven reserves are developed. The reserve quantity of information summarizes the changes in quantities of net proven Canadian oil and gas reserves.

	Year Ended December 31,					
	1985		1984		1983	
	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	2,280	37,902	2,061	38,528	1,989	39,406
Revision of previous estimates	840	(2,208)	500	388	259	(447)
Extensions, discoveries and other additions	233	490	138	858	159	822
Production	(451)	(2,248)	(419)	(1,872)	(346)	(1,253)
End of year	2,902	33,936	2,280	37,902	2,061	38,528

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, 1985, were applied to proven 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.

	Years ended December 31,		
	1985	1984	1983
	(millions of Canadian dollars)		
Future cash inflows	$223.8	$221.9	$223.4
Future production costs	(82.1)	(102.8)	(107.4)
Future development costs	(2.9)	(2.5)	(2.5)
Future income tax expense	(58.9)	(59.9)	(61.9)
Future net cash flows	$ 79.9	$ 56.7	$ 51.6
Standardized measure of future net cash flows discounted at 10%	$ 47.1	$ 31.9	$ 27.1

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

	Years ended December 31,		
	1985	1984	1983
	(millions of Canadian dollars)		
Sales of oil and gas and value of transfers	$(16.3)	$(15.3)	$(11.1)
Net changes in prices and production costs	5.2	2.0	(1.3)
Extensions, discoveries and improved recovery, less related costs	4.6	3.2	3.1
Development costs incurred during the period	0.3	0.4	0.2
Revisions of previous quantity estimates	17.6	10.7	4.9
Accretion of discount	3.2	2.7	2.8
Net changes in income taxes	0.6	1.1	0.5
Net increase (decrease)	15.2	4.8	(0.9)
Beginning of period	31.9	27.1	28.0
End of period	$ 47.1	$ 31.9	$ 27.1

SELECTED FINANCIAL AND OPERATING DATA

	Years Ended December 31,				
	1985	1984	1983	1982	1981
	(thousands of Canadian dollars except per share amounts)				
REVENUE					
Oil Sales	$13,224	$11,474	$ 8,282	$ 5,025	$ 2,302
Gas Sales	5,291	5,083	3,214	5,516	4,507
Royalties	3,665	3,216	3,038	2,274	1,496
Interest	1,475	2,128	1,351	261	36
	23,655	21,901	15,885	13,076	8,341
EXPENSES					
Production Revenue Taxes	2,802	2,926	2,027	1,759	805
Production and Administration	3,462	2,775	2,534	2,237	1,584
Depreciation and Depletion	5,172	3,859	2,544	2,078	1,653
Other Financial Expense	92	7	36	48	309
Income Taxes	5,543	5,882	2,389	1,218	928
	17,071	15,449	9,530	7,340	5,279
NET INCOME	$ 6,584	$ 6,452	$ 6,355	$ 5,736	$ 3,062
CASH FLOW	$15,463	$13,983	$11,297	$10,141	$ 6,570
CAPITAL EXPENDITURES[1]					
Exploration and Property Acquisitions	$15,869	$12,408	$ 5,197	$ 3,293	$ 1,338
Plant and Equipment	$ 1,260	$ 1,133	$ 432	$ 1,391	$ 464
TOTAL ASSETS	$82,455	$76,126	$62,100	$50,837	$39,245
PRODUCTION (Before Royalties)					
Crude Oil and Natural Gas Liquids (barrels per day)	1,660	1,516	1,247	961	718
Natural Gas (mcf per day)	8,674	7,284	4,782	7,230	8,465
COMMON SHARES					
Issued and Outstanding	7,846,076	7,846,076	7,846,080	7,846,080	7,846,080
Number of Shareholders[2]	705	719	756	950	1,220
Earnings per share	$ 0.84	$ 0.82	$ 0.81	$ 0.73	$ 0.39

MARKET PRICES[3]

	1985		1984		1983		1982		1981	
American Stock Exchange	High	Low	High	Low	High	Low	High	Low	High	Low
(U.S. $) 1st Quarter	6¾	6	5½	4⅝	5⅛	3⅞	3⅜	2¾	4⅛	3½
2nd Quarter	7⅝	5¾	6⅜	5⅛	6¼	4⅜	4	3	4½	3⅝
3rd Quarter	7	6	7⅛	5⅝	5⅝	5	3⅝	2⅞	5⅜	2¾
4th Quarter	6⅝	5⅛	7¾	6	5⅝	4⅞	4½	2⅞	4	3⅛
Toronto Stock Exchange										
(Cdn. $) 1st Quarter	9¼	8½	6¾	6⅛	5¼	5¼	no sales		5	5
2nd Quarter	10¼	7⅜	7⅞	6½	7½	5½	no sales		no sales	
3rd Quarter	9⅛	8⅜	7⅝	7⅜	7	6¼	5½	4⅛	5½	4⅞
4th Quarter	8½	7⅛	10½	8⅜	6⅞	6¼	5½	4¾	no sales	

Notes:

(1) Capital expenditures are net of petroleum incentive payments earned.
(2) Number of shareholders as at March 3, 1986 — 702.
(3) Market prices, for years 1981 through 1984, are adjusted, to the nearest fraction, to retroactively reflect the four-for-one stock split of the common shares of the Company.

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, Norcen Energy Resources Limited

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

*WILLIAM C. HENNENFENT, *Calgary, Alberta*
Vice-President, Exploration, 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
Executive Vice-President, Norcen Energy Resources Limited

WILLIAM C. HENNENFENT, President
Vice-President, Exploration, Norcen Energy Resources Limited

GORDON B. SINGER, Vice-President, Comptroller
Vice-President, Accounting and Services, Norcen Energy Resources Limited

DAVID M. TYERMAN, Q.C., Secretary
Barrister & Solicitor, MacPherson, Leslie & Tyerman

ALICK S. G. DUGUID, Treasurer
Treasurer, Norcen Energy Resources Limited

WILLIAM T. KILBOURNE, Assistant Secretary
Vice-President, Legal and Secretary, Norcen Energy Resources Limited

THOMAS G. BANE, Assistant Secretary
Assistant Secretary, Norcen Energy Resources Limited

EVELYN M. MACDONALD, Assistant Treasurer
Assistant Treasurer, Norcen Energy Resources Limited

EXECUTIVE OFFICE
715 Fifth Avenue Southwest, Calgary, Alberta, T2P 2X7

REGISTERED OFFICE
2161 Scarth Street, Regina, Saskatchewan, S4P 2V4

REGISTRARS & TRANSFER AGENTS

The Canada Trust Company (formerly Canada Permanent Trust Company), Regina, Saskatchewan and Toronto, Ontario

Morgan Guaranty Trust Company of New York
New York, U.S.A.

AUDITORS

Thorne Riddell, 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.

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PRAIRIE OIL ROYALTIES
COMPANY, LTD.
715 Fifth Avenue Southwest
Calgary, Alberta, T2P 2X7