

**Prairie Oil Royalties  
Company, Ltd.**

**1984 Annual Report**





## **CORPORATE PROFILE**

Prairie Oil Royalties Company, Ltd. was incorporated July 13, 1951 under the laws of the Province of Saskatchewan, Canada. At December 31, 1984 there were 1,961,519 Common Shares issued and outstanding. On January 8, 1985 the Common Shares were subdivided, on a four-for-one basis, increasing the issued and outstanding shares to 7,846,076. Norcen Energy Resources Limited of Toronto, Canada, owns 74.4% 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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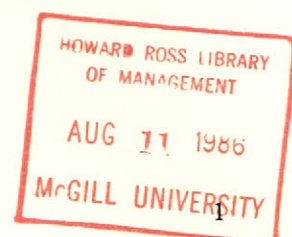
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# HIGHLIGHTS

	<u>1984</u>	<u>1983</u>
<b>FINANCIAL</b>		
(\$000's except per share amounts)		
Revenue .....	21,901	15,885
Net Income .....	6,452	6,355
Net Income per share (post subdivision) .....	0.82	0.81
Cash Flow .....	13,983	11,297
Working Capital .....	17,147	17,201
Total Assets .....	76,126	62,100
 <b>PRODUCTION</b>		
Crude oil and natural gas liquids – bbls/day .....	1,516	1,247
Natural gas – Mcf/day .....	7,284	4,782

## ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held on Thursday, May 2, 1985, at 10:30 o'clock in the forenoon, local time, in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715 Fifth Avenue Southwest, Calgary, Alberta, Canada.



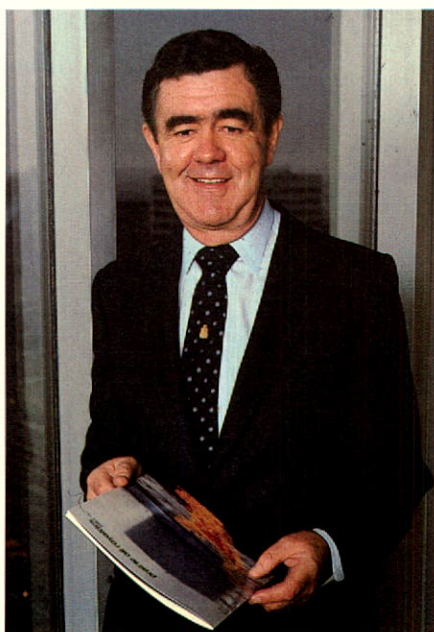


# REPORT TO SHAREHOLDERS

Increases in revenue, net income and cash flow were recorded by the Company in 1984. Revenue from all sources totalled \$21,901,000, a 38% increase over 1983 revenue. Net income was \$6,452,000 or 82¢ a share for the year compared with net income in 1983 of \$6,355,000 or 81¢ a share. Earnings per share figures are quoted on a post subdivision basis. Cash flow from operations increased to \$13,983,000 compared with \$11,297,000 in the previous year, representing a gain of 24%.

Despite a 21% increase in the average daily production of crude oil and natural gas liquids, a substantial increase in the volume of crude oil receiving the new oil reference price, and a significant increase in natural gas production, net income for the year increased only modestly. This was primarily due to substantial increases in income taxes and production revenue taxes. The provision for income taxes alone increased to \$5,882,000 in 1984 as compared to \$2,389,000 in the previous year.

A detailed review of the Company's financial performance for 1984 appears on pages 8 and 9 of this annual report.



Donald D. Barkwell, Chairman

Before deducting royalties, the average daily production of crude oil and natural gas liquids was 1,516 barrels, an increase of 269 barrels a day over the average for the previous year. This increase was largely due to an escalation in production from wells at West Pembina and Taber North in Alberta and Tatagwa-Colgate in Saskatchewan and well allocation increases in existing fields.

During the year, natural gas production increased 52% to 7,284 Mcf a day from 4,782 Mcf a day in the previous year.

The Company received an average price of \$34.97 a barrel from the sale of its 1984 production of crude oil and natural gas liquids, compared to \$32.97 a barrel in 1983. This gain resulted from further increases in the volume of production receiving the new oil reference price which is approximately equivalent to the international price of crude oil. At December 31, 1984, the new oil reference price was being received on 70% of the Company's average daily production, or 1,061 barrels a day.

The average price received in 1984 from the sale of natural gas increased to \$2.71 an Mcf from \$2.53 an Mcf in 1983 due primarily to the increase in the Alberta Border price of 25¢ per Mcf on February 1, 1984.

Estimated reserves at December 31, 1984, before royalties, were 3.38 million barrels of crude oil and natural gas liquids and 59 billion cubic feet of natural gas. At the previous year-end, comparable figures were 3.25 million barrels of crude oil and natural gas liquids and 65 billion cubic feet of natural gas. These estimates have been calculated 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. The supplemental information commencing on page 16, contains further details on the Company's reserves.



In November 1984, the Federal Government announced a new policy allowing exporters of Canadian natural gas to negotiate competitive price contracts with their customers effective November 1, 1984. Under this new policy, which is expected to place Canadian gas exporters in a better position to compete in the export market, both gas prices and volumes to be exported will be renegotiated annually. As a consequence of such new policy, the National Energy Board has approved a number of applications for new competitive prices. The Federal Government through the National Energy Board currently controls volumes of oil, gas and some natural gas liquids exported from Canada. However, it is anticipated that a program of full decontrol will be announced in the first half of 1985.

On December 18, 1984, 84% of the Company's shareholders approved a Special Resolution giving effect to the subdivision of the Company's issued and outstanding Common Shares on a four-for-one basis. Following the necessary filing with the Government of Saskatchewan, the share subdivision became effective on January 8, 1985. Accordingly, the Company's issued and outstanding shares increased to 7,846,076.

On February 28, 1985, the Board of Directors accepted, with regret, the resignation of Wilfrid A. Loucks as President and Director of the Company and its subsidiary, P.O.R. Oil & Gas Inc. Mr. Loucks has accepted a position in Australia with the Company's parent, Norcen Energy Resources Limited. The Directors acknowledged Mr. Loucks' many years of dedicated service.



William C. Hennenfent, President

William C. Hennenfent has been appointed as Mr. Loucks' successor. A professional engineer, Mr. Hennenfent has been a Vice-President of the Company since 1979 and is currently Vice-President, Exploration with Norcen Energy Resources Limited.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read "Donald D. Barkwell".

DONALD D. BARKWELL  
Chairman

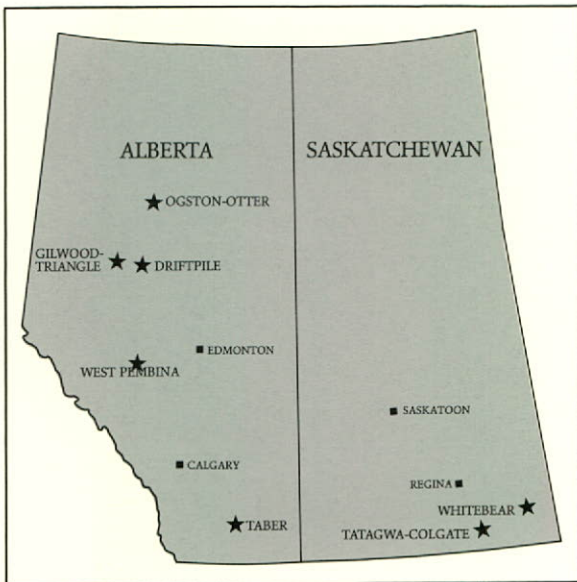
A handwritten signature in black ink, appearing to read "William C. Hennenfent".

WILLIAM C. HENNENFENT  
President

Calgary, Alberta  
February 28, 1985

# EXPLORATION AND DEVELOPMENT

During 1984 the Company participated in the drilling of 49 (7.31 net) exploratory wells resulting in 13 (2.22 net) oil wells and four (.13 net) gas wells. These figures include 11 (.15 net) wells drilled on Company lands under farmout arrangements at no cost to the Company. In addition, the Company participated in the drilling of 90 development wells. The Company's net interest in the great majority of these wells was minute, and such drilling resulted in 1.02 net oil wells. The major areas of activity were in the Tatagwa-Colgate fields in Saskatchewan, and the Taber North field, the Ogston-Otter, Gilwood-Triangle and West Pembina areas, all in Alberta. The Company's drilling activity included participation in six wells in the United States during 1984. Capital expenditures on exploration and development for the year totalled \$16,685,000 (gross) which represents a net expenditure of \$13,541,000 after receipt of Federal and Provincial incentives. The following review covers the principal areas in which operations were conducted in 1984.





### **Tatagwa-Colgate**

The Company completed its development program in the Tatagwa and Colgate areas in south central Saskatchewan during 1984, with the drilling of five wells which resulted in three oil completions. Company interests range from 7.5% to 10% in a total of 17 oil wells in the Tatagwa-Colgate area. Currently, the Company's share of production from these wells is approximately 130 barrels a day.

### **Whitebear**

In the latter part of the year, the Company was successful in completing a Mississippian oil well in this area of southeastern Saskatchewan. The Company has a 30% interest in the well and the surrounding acreage which was purchased during the last quarter of the year. Further drilling and land acquisition will depend on production test results from the well.

### **Driftpile**

During the last month of the year the Company participated, by way of a farmin agreement, in the drilling and completion of a significant Slave Point oil discovery in this northern Alberta area. The Company has earned a 6% interest in 4<sup>1</sup>/<sub>4</sub> sections by paying 10% of the cost of drilling the well and plans to drill another well to earn a similar interest in five adjacent sections. Further drilling to delineate the discovery is planned for 1985. In addition to these farmin lands, the Company has a 10% interest in another 17 sections on this prospect.

### **Taber**

In the Taber area of southeastern Alberta the Company participated in the drilling of ten wells exploring for Glauconitic channel oil. Three of these wells were drilled at no cost to the Company. The Company now has interests ranging from 25% to 27.5% in eight oil wells in the Taber North field. The main portion of the field is in the process of being unitized.

The Company has a 15% interest in the Taber South-east pool which is currently under a waterflood recovery scheme.

### **West Pembina**

Three Basal Belly River oil wells were drilled and successfully completed in channel sands in the West Pembina area of central Alberta. The Company's interests vary from 3.5% to 5% in these wells. In view of the potential for adding significant reserves, the Company plans to drill at least four exploratory and development wells in this area early in 1985.



# EXPLORATION AND DEVELOPMENT

## Gilwood-Triangle

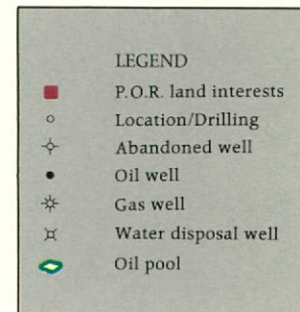
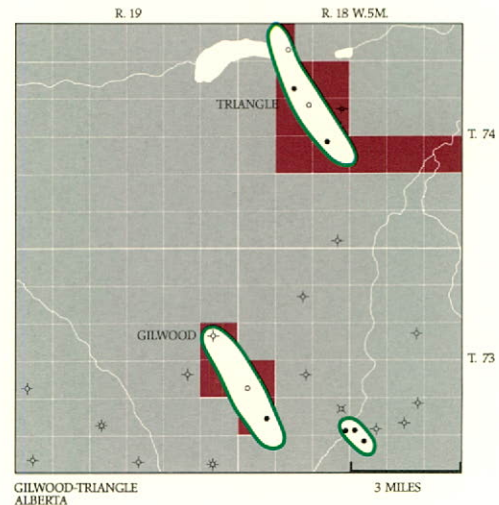
The Company participated in the drilling of three Gilwood Sand oil wells in the Gilwood-Triangle area of northern Alberta during 1984. One of these wells, in which the Company has a 25% interest, qualifies for five year royalty-free production and has an allocated production rate of 90 barrels a day. The second well, in which the Company's interest is 23.6%, qualifies for one year royalty-free production and has an allocated production rate of 135 barrels a day. The Company has an 80% interest in the third well which has low productivity. A significant amount of seismic work is planned to further define exploratory plays and plan development drilling on existing discoveries.

## Ogston-Otter

During 1984 the Company participated in the drilling of eight wells in the Ogston-Otter area of northern Alberta resulting in the completion of four Granite Wash oil wells. The Company's interests in these wells varies from 10% to 12.5% and its share of production from three of the wells is approximately 40 barrels a day. Further drilling in the area is planned for 1985.

## United States

Through its wholly-owned subsidiary, P.O.R. Oil & Gas Inc., the Company participated in the drilling of six wells in the United States during 1984. The drilling resulted in two (.07 net) oil wells and four (.22 net) abandoned wells. The discovery of a new field on the Bitter Creek Prospect in northern Wyoming, in which the Company has a 5% working interest, was the result of drilling following an extensive seismic program in 1983. Development of this new field is anticipated early in 1985 with the drilling of three step-out wells. At the end of 1984 the Company had landholdings of 31,694 gross (2,776 net) acres focused in the Rocky Mountain area.



## 1985 Exploration and Development

The Company's Directors have approved capital expenditures of \$17,451,000 (gross), representing net expenditures of \$13,741,000, after receipt of Federal and Provincial incentives, for 1985 exploration and development activities. Although the majority of this amount has been allocated to Canadian operations, a small portion of such expenditures is expected to be incurred on operations in the United States.



## OIL AND GAS LANDHOLDINGS

At December 31, 1984, the Company owned interests in 3,981,996 gross (316,642 net) acres as shown in detail in the following summary. This compares with 4,053,282 gross (319,259 net) acres at the end of 1983. In addition, the Company holds royalty interests in 189,597 acres.

	DEVELOPED*		UNDEVELOPED				TOTAL	
	Leases		Leases		Reservations and Permits		Gross	Net
	Gross	Net	Gross	Net	Gross	Net		
Alberta	221,727	40,533	542,827	89,125	157,864	21,761	922,418	151,419
British Columbia	24,969	1,689	69,333	4,439	8,451	634	102,753	6,762
Saskatchewan	11,003	1,204	86,899	39,207	—	—	97,902	40,411
Manitoba	1,520	340	93,048	26,810	—	—	94,568	27,150
Ontario	—	—	2,395	646	99	20	2,494	666
Arctic Islands	—	—	—	—	2,705,009	86,672	2,705,009	86,672
Northwest Territories	—	—	—	—	25,158	786	25,158	786
United States	5,188	344	26,506	2,432	—	—	31,694	2,776
	<u>264,407</u>	<u>44,110</u>	<u>821,008</u>	<u>162,659</u>	<u>2,896,581</u>	<u>109,873</u>	<u>3,981,996</u>	<u>316,642</u>

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

## 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, 1984.

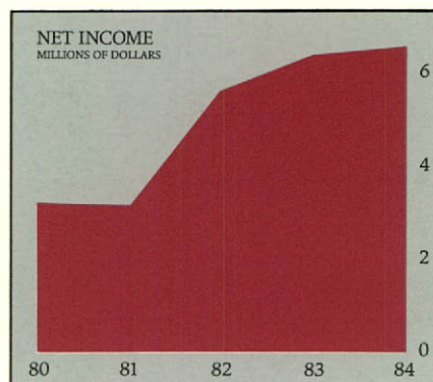
Year	Exploratory Wells				Development Wells			
	Gross Wells	Net Wells			Gross Wells	Net Wells		
		Oil	Gas	Dry Holes		Oil	Gas	Dry Holes
1980	40	.29	2.19	2.83	14	—	2.17	—
1981	44	.62	.82	3.05	4	.50	.13	.37
1982	52	2.17	.83	4.68	5	.45	—	1.00
1983	43	1.50	.47	4.55	13	1.15	—	.21
1984	49	2.22	.13	4.96	90	1.02	—	.22
	<u>228</u>	<u>6.80</u>	<u>4.44</u>	<u>20.07</u>	<u>126</u>	<u>3.12</u>	<u>2.30</u>	<u>1.80</u>

As at December 31, 1984 the Company had working interests in 473 gross (10 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 4 gross (0.2 net) producing oil wells in the United States, and royalty interests in 400 gross (10 net) producing oil wells and 14 gross (0.4 net) producing gas wells, most of which were in the Province of Saskatchewan.



# MANAGEMENT'S DISCUSSION AND FINANCIAL REVIEW

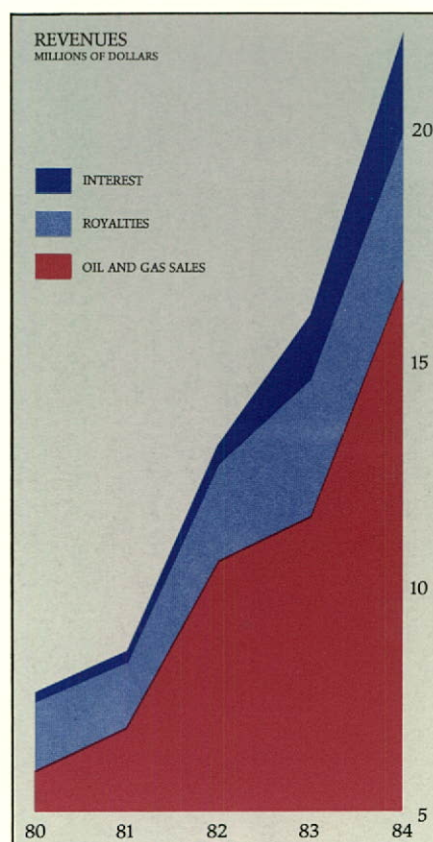
Net income increased to \$6.5 million in 1984 from \$6.4 million in 1983 and \$5.7 million in 1982. Earnings per share subsequent to the subdivision have increased correspondingly to \$0.82 per share from \$0.81 and \$0.73 in 1983 and 1982 respectively. This increase in earnings from 1983 was achieved despite a \$1.1 million reduction in the Alberta Royalty Tax Credit and was attributable to higher production volumes. Funds generated from operations also set a new high at \$14.0 million. Return on average common share equity was 15.8% in 1984 compared to 18.5% in 1983 and 20.2% in 1982.



## Revenues and Expenses

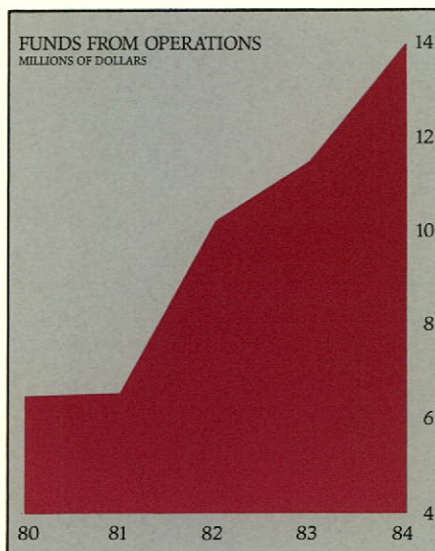
Increased oil production and, to a lesser extent, increased gas production contributed to the higher gross revenues received during the year, up 38% in 1984 after an increase of 21% in 1983. Record oil production was recorded primarily in the West Pembina and Taber fields. The Company commenced an enhanced oil recovery scheme on a further well at West Pembina resulting in increased production capabilities as well as a reduced royalty status. Production at Taber reflected the full year effect of new wells that came on stream during 1983. These increases were partially offset by reduced liquids production at West Pembina 5-14 due to gas cycling liquid recovery problems. Gas production has increased due to a recovering demand, particularly in late 1984, as a result of higher export volumes to the United States. Prices continued their stabilizing trend that originated in 1983 gaining approximately 6% during the year mainly due to an increasing proportion of new oil reference price production in the case of oil and the 25¢ per Mcf increase in the Alberta Border price on February 1, 1984 for gas.

Production and operating costs increased only 8% in 1984 compared to a 12% increase in 1983, all despite a volumetric increase in production of 32% for oil and 53% for gas. Broadly based restraint in the economy and the concerted effort by the Company to control costs and improve productivity have minimized cost increases. Depreciation and depletion continued to increase due to higher production revenues and the higher costs of replacing reserves.





Income taxes increased substantially during the period to an average rate, based on income before income taxes in 1984 of 48%, up from 27% in 1983 and 18% in 1982. This is primarily due to the reduction of the Alberta Royalty Tax Credit in 1984 which was implemented by the Provincial Government. A reconciliation of differences with the statutory rate is explained in Note 5 to the financial statements. Production revenue taxes continued to grow as a direct function of increasing levels of revenue. Current income and production revenue taxes totalled \$5.1 million, up from \$2.0 million in 1983 and \$0.7 million in 1982. Total income and production revenue taxes are now 136% of net income compared to approximately 69% in 1983 and 52% in 1982.



### Capital and Other Spending

Capital expenditures on oil and gas exploration and development, before Federal and Provincial incentives, increased dramatically during the year to \$16.7 million from \$6.3 million in 1983. These expenditures (after incentives) accounted for the majority of the increase in the total cost of assets of \$14.0 million to \$76.1 million. The expenditures consisted mainly of land acquisition, seismic costs and exploratory drilling incurred to enable the Company to expand its exploration activities in 1985. Federal and Provincial incentives increased from \$0.6 million in 1983 to \$3.1 million in 1984 due to the increased level of allowable expenditures in 1984.

### Changing Prices

In 1983, the Canadian Institute of Chartered Accountants ("CICA") introduced, on an experimental basis, new recommendations for the supplementary disclosure of the effects of changing prices for corporations with property, plant and equipment in excess of \$50 million. The Company, which in 1983 was exempt from these recommendations, now falls within this criteria. However, it is the Company's belief that there is no realistic method of determining the current costs of the oil and gas assets, and the CICA recommendations in respect of revenues and taxation are unrealistic, particularly in view of the impending changes to the regulation of oil and gas pricing in Canada. Therefore, the result of calculating the effects of changing prices would be distorted and misleading. Accordingly, the Company has concluded that to participate publicly in the CICA experiment at this time would result in a potentially misleading presentation of the effects of changing prices.



# CONSOLIDATED FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

YEARS ENDED DECEMBER 31, 1984, 1983  
AND 1982

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.

### Principles of Consolidation

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

### 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 exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted on the net production revenue method based on total estimated future net production revenues from proven recoverable reserves.

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 1984 (8.6% in 1983, 8.4% in 1982).

Upon retirement or sale of major items of producing property or equipment, the asset accounts are relieved of the cost of such property together with the accumulated depletion or depreciation. The difference between net book value of such items and the proceeds, if any, is charged or credited to income. Proceeds on sale of non-producing properties are credited to asset costs.

Maintenance and repairs are charged to income when incurred and betterments which extend the serviceable life of properties are capitalized.

### 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 production revenues represents payments received under take-or-pay gas contracts. These amounts will be included in revenue when the gas to which the payments relate is delivered at the purchaser's option. Deliveries are to be made over a ten year period which commenced November 1, 1984.

### Segmented Information

All of the Company's activities are in one business segment, 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.



# CONSOLIDATED BALANCE SHEET

As at December 31, 1984 and 1983  
(thousands of Canadian dollars)

	<u>1984</u>	<u>1983</u>
<b>Assets</b>		
CURRENT ASSETS		
Cash and short-term investments .....	\$19,591	\$18,435
Accounts receivable .....	7,393	3,583
Note receivable .....	—	622
	<u>26,984</u>	<u>22,640</u>
PROPERTIES, PLANT AND EQUIPMENT (note 3) .....	49,142	39,460
	<u>\$76,126</u>	<u>\$62,100</u>
<b>Liabilities</b>		
CURRENT LIABILITIES		
Accounts payable and accrued charges .....	\$ 3,391	\$ 1,588
Income taxes payable .....	329	2,386
Due to parent company .....	5,517	1,465
Current amount of deferred gas revenues .....	600	—
	<u>9,837</u>	<u>5,439</u>
DEFERRED GAS REVENUES .....	5,050	5,546
DEFERRED INCOME TAXES .....	17,223	13,551
<b>Shareholders' Equity</b>		
CAPITAL STOCK (note 4)		
Issued		
1,961,519 (1983 - 1,961,520) Common Shares .....	1,962	1,962
CONTRIBUTED SURPLUS .....	574	574
RETAINED EARNINGS .....	41,480	35,028
	<u>44,016</u>	<u>37,564</u>
	<u>\$76,126</u>	<u>\$62,100</u>

Approved by the Board



Director



Director



## CONSOLIDATED STATEMENT OF INCOME

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars except per share amounts)

	1984	1983	1982
<b>SALES AND OTHER REVENUES</b>			
Oil and gas sales .....	\$16,557	\$11,496	\$10,541
Royalties .....	3,216	3,038	2,274
Interest .....	2,128	1,351	261
	<u>21,901</u>	<u>15,885</u>	<u>13,076</u>
<b>COSTS AND EXPENSES</b>			
Production .....	1,468	1,438	1,266
Production revenue taxes .....	2,926	2,027	1,759
Depletion .....	3,129	1,878	1,547
Depreciation .....	730	666	531
General and administrative			
Charges from parent company .....	1,147	1,003	901
Other .....	160	93	70
Interest .....	7	36	48
	<u>9,567</u>	<u>7,141</u>	<u>6,122</u>
Income before income taxes .....	<u>12,334</u>	<u>8,744</u>	<u>6,954</u>
Income taxes (note 5)			
Current (recovery) .....	2,210	(9)	(1,109)
Deferred .....	3,672	2,398	2,327
	<u>5,882</u>	<u>2,389</u>	<u>1,218</u>
NET INCOME .....	<u>\$ 6,452</u>	<u>\$ 6,355</u>	<u>\$ 5,736</u>
<b>EARNINGS PER SHARE (note 4)</b>			
Before stock split .....	<u>\$3.28</u>	<u>\$3.24</u>	<u>\$2.92</u>
After stock split .....	<u>\$0.82</u>	<u>\$0.81</u>	<u>\$0.73</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars)

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR .....	\$35,028	\$28,673	\$22,937
Net income .....	<u>6,452</u>	<u>6,355</u>	<u>5,736</u>
BALANCE AT END OF YEAR .....	<u>\$41,480</u>	<u>\$35,028</u>	<u>\$28,673</u>



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars)

	<u>1984</u>	<u>1983</u>	<u>1982</u>
<b>SOURCE OF FUNDS</b>			
Net income .....	\$ 6,452	\$ 6,355	\$ 5,736
Items not requiring an outlay of funds			
Deferred income taxes .....	3,672	2,398	2,327
Depletion .....	3,129	1,878	1,547
Depreciation .....	730	666	531
From operations .....	<u>13,983</u>	<u>11,297</u>	<u>10,141</u>
Deferred gas revenues .....	—	233	3,351
Note receivable .....	—	622	623
	<u>13,983</u>	<u>12,152</u>	<u>14,115</u>
<b>APPLICATION OF FUNDS</b>			
Expenditures on properties, plant and equipment .....	16,685	6,253	6,682
Petroleum incentive payments earned .....	(3,144)	(624)	(1,998)
Deferred gas revenues .....	496	—	—
	<u>14,037</u>	<u>5,629</u>	<u>4,684</u>
<b>INCREASE (DECREASE) IN FUNDS .....</b>	<u>\$ (54)</u>	<u>\$ 6,523</u>	<u>\$ 9,431</u>
<b>CHANGES IN COMPONENTS OF FUNDS ARE REPRESENTED BY:</b>			
Cash and short-term investments .....	\$ 1,156	\$12,735	\$ 5,700
Accounts receivable .....	3,810	(2,643)	3,795
Income taxes recoverable .....	—	(1,291)	113
Portion of note receivable due within one year .....	(622)	(1)	1
Bank indebtedness .....	—	—	1,528
Accounts payable and accrued charges .....	(2,403)	671	(1,036)
Income taxes payable .....	2,057	(2,386)	—
Due to parent company .....	(4,052)	(562)	(670)
<b>INCREASE (DECREASE) IN FUNDS .....</b>	<u>\$ (54)</u>	<u>\$ 6,523</u>	<u>\$ 9,431</u>

## 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, 1984 and 1983 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years ended December 31, 1984. 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, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1984 in accordance with generally accepted accounting principles applied on a consistent basis.

*Thorne Riddell*

Thorne Riddell  
Chartered Accountants

Calgary, Canada  
January 31, 1985



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars)

## 1. ACCOUNTING POLICIES

The summary of accounting policies is an integral part of these financial statements.

## 2. COMPARATIVE FIGURES

Certain 1983 and 1982 comparative figures have been reclassified to conform to the 1984 financial statement presentation.

## 3. PROPERTIES, PLANT AND EQUIPMENT

	Year Ended December 31,	
	1984	1983
Properties .....	\$58,033	\$45,625
Production equipment .....	9,276	8,143
	<u>67,309</u>	<u>53,768</u>
Accumulated depreciation and depletion .....	18,167	14,308
Net book value .....	<u>\$49,142</u>	<u>\$39,460</u>

The net book value of properties, plant and equipment is limited to an amount which does not exceed the estimated present value of future net revenues from proven reserves plus the lower of cost or estimated fair value of unproven properties.

During the year, the Company capitalized \$1,493 (\$436 in 1983) of overhead charges related to exploration activities.

## 4. CAPITAL STOCK

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

## 5. 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:

	1984	1983	1982
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation .....	\$ 3,638	\$ 2,070	\$ 2,387
Other items .....	34	328	(60)
	<u>\$ 3,672</u>	<u>\$ 2,398</u>	<u>\$ 2,327</u>



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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Income before income taxes .....	<u>\$12,334</u>	<u>\$ 8,744</u>	<u>\$ 6,954</u>
Canadian federal statutory rate of income tax .....	<u>46.0%</u>	<u>46.0%</u>	<u>46.0%</u>
Computed income tax expense .....	\$ 5,674	\$ 4,027	\$ 3,199
Increase (decrease) in income tax resulting from:			
Alberta Royalty Tax Credit .....	(2,000)	(3,141)	(2,369)
Non-deductible production revenue taxes .....	1,346	932	809
Income tax depletion .....	(9)	(118)	(318)
Non-deductible royalties, mineral taxes and other expenses, less federal resource allowance and provincial rebates .....	551	448	191
Other, net .....	<u>320</u>	<u>241</u>	<u>(294)</u>
Actual income tax expense .....	<u>\$ 5,882</u>	<u>\$ 2,389</u>	<u>\$ 1,218</u>
Effective income tax rate .....	<u>47.7%</u>	<u>27.3%</u>	<u>17.5%</u>



# SUPPLEMENTAL INFORMATION (UNAUDITED)

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars except per share amounts)

## QUARTERLY AND OTHER FINANCIAL DATA

	Quarter				Year
	First	Second	Third	Fourth	
<b>1984</b>					
Revenue (i) .....	\$ 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 .....	2,004	1,696	1,201	1,551	6,452
Earnings per share (ii)	0.25	0.22	0.15	0.20	0.82
Market price per common share (iii)					
High .....	22	25 <sup>1</sup> / <sub>4</sub>	28 <sup>1</sup> / <sub>2</sub>	30 <sup>3</sup> / <sub>4</sub>	30 <sup>3</sup> / <sub>4</sub>
Low .....	18 <sup>5</sup> / <sub>8</sub>	20 <sup>5</sup> / <sub>8</sub>	22 <sup>3</sup> / <sub>8</sub>	24	18 <sup>5</sup> / <sub>8</sub>
<b>1983</b>					
Revenue (i) .....	\$ 3,909	\$ 3,521	\$ 3,781	\$ 4,674	\$15,885
Income before income taxes .....	2,090	2,003	2,147	2,504	8,744
Net income .....	1,641	1,483	1,319	1,912	6,355
Earnings per share (ii) .....	0.21	0.19	0.17	0.24	0.81
Market price per common share (iii)					
High .....	20 <sup>3</sup> / <sub>4</sub>	25	22 <sup>5</sup> / <sub>8</sub>	22 <sup>1</sup> / <sub>2</sub>	25
Low .....	15 <sup>1</sup> / <sub>2</sub>	17 <sup>3</sup> / <sub>4</sub>	20 <sup>1</sup> / <sub>4</sub>	19 <sup>3</sup> / <sub>4</sub>	15 <sup>1</sup> / <sub>2</sub>

- (i) The revenue amounts have been restated to retroactively reflect the reclassification of production revenue taxes as a separate expense item.
- (ii) The earnings per share amounts have been calculated giving retroactive effect to the January 8, 1985 four-for-one stock split on the common shares of the Company.
- (iii) The market prices are as reported by the American Stock Exchange (the primary market) in U.S. dollars, prior to giving effect to the stock split referred to in (ii) above.

## OIL AND GAS INFORMATION

The following 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,	
	1984	1983
Properties		
— Proven .....	\$53,031	\$45,625
— Unproven .....	5,002	—
Production equipment .....	9,276	8,143
	<u>67,309</u>	<u>53,768</u>
Accumulated depreciation, depletion and amortization .....	18,167	14,308
Capitalized costs .....	<u>\$49,142</u>	<u>\$39,460</u>



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

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Costs capitalized in the year			
Property acquisition .....	\$ 4,856	\$ 1,230	\$ 205
Exploration (i) – Proven .....	1,581	3,407	2,519
– Unproven .....	5,002	–	–
Development (i) .....	<u>2,102</u>	<u>992</u>	<u>1,960</u>
Total capitalized .....	<u>\$13,541</u>	<u>\$ 5,629</u>	<u>\$ 4,684</u>

(i) Exploration and development costs are shown net of petroleum incentive payments earned of \$3,144 in 1984 (\$624 in 1983; \$1,998 in 1982).

	<u>1984</u>	<u>1983</u>	<u>1982</u>
Net revenues from producing oil and gas			
Revenue (i) .....	\$26,610	\$19,431	\$16,605
Production expenses .....	11,276	8,362	6,815
Depreciation, depletion and amortization expense (ii) .....	<u>3,859</u>	<u>2,544</u>	<u>2,078</u>
	11,475	8,525	7,712
Income tax expense .....	<u>5,191</u>	<u>2,169</u>	<u>1,506</u>
Results of operations from producing activities (excluding corporate overhead and interest costs) .....	<u>\$ 6,284</u>	<u>\$ 6,356</u>	<u>\$ 6,206</u>

(i) Revenue is shown before freehold and crown royalty payments of \$6,882 in 1984 (\$4,897 in 1983; \$3,790 in 1982) which have been included in production expenses.

(ii) Depletion expense per dollar of net revenue (gross revenue less crown royalties, freehold royalties and production revenue taxes) amounts to \$0.19 (\$0.15 in 1983; \$0.14 in 1982) under the net revenue method of depletion.

## RESERVES

The reserve information provided, as determined by independent reservoir engineers McDaniels & Associates, Inc., 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.

	<u>Year Ended December 31,</u>					
	<u>1984</u>		<u>1983</u>		<u>1982</u>	
	<u>Oil and Gas Liquids</u>	<u>Gas</u>	<u>Oil and Gas Liquids</u>	<u>Gas</u>	<u>Oil and Gas Liquids</u>	<u>Gas</u>
	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)
Beginning of year .....	2,061	38,528	1,989	39,406	2,036	36,816
Revision of previous estimates .....	500	388	259	(447)	232	1,658
Extensions, discoveries and other additions .....	138	858	159	822	–	2,866
Production .....	<u>(419)</u>	<u>(1,872)</u>	<u>(346)</u>	<u>(1,253)</u>	<u>(279)</u>	<u>(1,934)</u>
End of year .....	<u>2,280</u>	<u>37,902</u>	<u>2,061</u>	<u>38,528</u>	<u>1,989</u>	<u>39,406</u>



# SUPPLEMENTAL INFORMATION (UNAUDITED)

Years Ended December 31, 1984, 1983 and 1982  
(thousands of Canadian dollars except where otherwise indicated)

## Standardized Measure of Discounted Future Net Cash Flows and Changes therein relating to Proved Oil and Gas Reserves

In calculating the standardized measure of discounted future net cash flows, prices and costs in effect at January 1, 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 cash flows are derived by applying a 10% discount factor, as required by the FASB Statement No. 69 rules, to the future net cash flows. Management believes that this information does not sufficiently reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary and prices constantly change from year-end levels.

	Year ended December 31,		
	(millions of Canadian dollars)		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Future cash inflows .....	\$221.9	\$223.4	\$218.6
Future production costs .....	(102.8)	(107.4)	(99.0)
Future development costs .....	(2.5)	(2.5)	(2.5)
Future income tax expense .....	(59.9)	(61.9)	(62.8)
Future net cash flow .....	<u>\$ 56.7</u>	<u>\$ 51.6</u>	<u>\$ 54.3</u>
Standardized measure of future net cash flows discounted at 10% .....	<u>\$ 31.9</u>	<u>\$ 27.1</u>	<u>\$ 28.0</u>

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

	Year ended December 31,		
	(millions of Canadian dollars)		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Sales of oil and gas and value of transfers .....	\$(15.3)	\$(11.1)	\$ (9.8)
Net changes in prices and production costs .....	2.0	(1.3)	10.5
Extensions, discoveries and improved recovery, less related costs .....	3.2	3.1	0.9
Development costs incurred during the period .....	0.4	0.2	0.6
Revisions of previous quantity estimates .....	10.7	4.9	5.9
Accretion of discount .....	2.7	2.8	2.2
Net changes in income taxes .....	1.1	0.5	(3.8)
Net increase (decrease) .....	4.8	(0.9)	6.5
Beginning of period .....	<u>27.1</u>	<u>28.0</u>	<u>21.5</u>
End of period .....	<u>\$ 31.9</u>	<u>\$ 27.1</u>	<u>\$ 28.0</u>



# SELECTED FINANCIAL AND OPERATING DATA

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

For the Years Ended December 31	1984		1983		1982		1981		1980			
REVENUE — note 1												
Oil Sales	\$11,474		\$ 8,282		\$ 5,025		\$ 2,302		\$ 1,520			
Gas Sales	5,083		3,214		5,516		4,507		4,463			
Royalties	3,216		3,038		2,274		1,496		1,501			
Interest	2,128		1,351		261		36		17			
	<u>21,901</u>		<u>15,885</u>		<u>13,076</u>		<u>8,341</u>		<u>7,501</u>			
EXPENSES												
Production Revenue Taxes	\$ 2,926		\$ 2,027		\$ 1,759		\$ 805		\$ —			
Production and Administration	2,775		2,534		2,237		1,584		1,341			
Depreciation and Depletion	3,859		2,544		2,078		1,653		1,991			
Interest	7		36		48		309		334			
Income Taxes	5,882		2,389		1,218		928		685			
	<u>15,449</u>		<u>9,530</u>		<u>7,340</u>		<u>5,279</u>		<u>4,351</u>			
NET INCOME	<u>\$ 6,452</u>		<u>\$ 6,355</u>		<u>\$ 5,736</u>		<u>\$ 3,062</u>		<u>\$ 3,150</u>			
CASH FLOW	\$13,983		\$11,297		\$10,141		\$ 6,570		\$ 6,496			
CAPITAL EXPENDITURES — note 2												
Exploration and Property Acquisitions	\$12,408		\$ 5,197		\$ 3,293		\$ 1,338		\$ 5,815			
Plant and Equipment	\$ 1,133		\$ 432		\$ 1,391		\$ 464		\$ 1,721			
TOTAL ASSETS	\$76,126		\$62,100		\$50,837		\$39,245		\$35,236			
PRODUCTION (Before Royalties)												
Crude Oil and Natural Gas												
Liquids (barrels per day)	1,516		1,247		961		718		787			
Natural Gas (Mcf per day)	7,284		4,782		7,230		8,465		9,169			
COMMON SHARES												
Issued and Outstanding — note 3	7,846,076		7,846,080		7,846,080		7,846,080		7,846,080			
Number of Shareholders — note 4	719		756		950		1,220		1,350			
Earnings per share — note 3	\$ 0.82		\$ 0.81		\$ 0.73		\$ 0.39		\$ 0.40			
MARKET PRICES — note 5												
American Stock Exchange												
	<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>		<b>High</b>		<b>Low</b>	
(U.S. \$) 1st Quarter	(5 <sup>1</sup> / <sub>2</sub> )	22	(4 <sup>5</sup> / <sub>8</sub> )	18 <sup>5</sup> / <sub>8</sub>	20 <sup>3</sup> / <sub>4</sub>	15 <sup>1</sup> / <sub>2</sub>	13 <sup>1</sup> / <sub>2</sub>	11	16 <sup>5</sup> / <sub>8</sub>	14	30 <sup>3</sup> / <sub>4</sub>	15 <sup>3</sup> / <sub>4</sub>
2nd Quarter	(6 <sup>3</sup> / <sub>8</sub> )	25 <sup>1</sup> / <sub>4</sub>	(5 <sup>1</sup> / <sub>8</sub> )	20 <sup>5</sup> / <sub>8</sub>	25	17 <sup>3</sup> / <sub>4</sub>	16 <sup>1</sup> / <sub>4</sub>	12	18 <sup>1</sup> / <sub>4</sub>	14 <sup>3</sup> / <sub>8</sub>	25 <sup>3</sup> / <sub>8</sub>	17 <sup>1</sup> / <sub>2</sub>
3rd Quarter	(7 <sup>1</sup> / <sub>8</sub> )	28 <sup>1</sup> / <sub>2</sub>	(5 <sup>5</sup> / <sub>8</sub> )	22 <sup>3</sup> / <sub>8</sub>	22 <sup>5</sup> / <sub>8</sub>	20 <sup>1</sup> / <sub>4</sub>	14 <sup>1</sup> / <sub>2</sub>	11 <sup>3</sup> / <sub>4</sub>	21 <sup>3</sup> / <sub>8</sub>	11	28 <sup>5</sup> / <sub>8</sub>	22 <sup>5</sup> / <sub>8</sub>
4th Quarter	(7 <sup>3</sup> / <sub>4</sub> )	30 <sup>3</sup> / <sub>4</sub>	(6)	24	22 <sup>1</sup> / <sub>2</sub>	19 <sup>3</sup> / <sub>4</sub>	18 <sup>1</sup> / <sub>4</sub>	11 <sup>5</sup> / <sub>8</sub>	16 <sup>1</sup> / <sub>4</sub>	12 <sup>3</sup> / <sub>8</sub>	27 <sup>5</sup> / <sub>8</sub>	14 <sup>5</sup> / <sub>8</sub>
Toronto Stock Exchange												
(Can. \$) 1st Quarter	(6 <sup>3</sup> / <sub>4</sub> )	27	(6 <sup>1</sup> / <sub>8</sub> )	24 <sup>1</sup> / <sub>2</sub>	21	21	no sales		20	20	34	26
2nd Quarter	(7 <sup>7</sup> / <sub>8</sub> )	31 <sup>1</sup> / <sub>2</sub>	(6 <sup>1</sup> / <sub>2</sub> )	26	30	22	no sales		no sales		30	24
3rd Quarter	(7 <sup>5</sup> / <sub>8</sub> )	30 <sup>1</sup> / <sub>2</sub>	(7 <sup>3</sup> / <sub>8</sub> )	29 <sup>1</sup> / <sub>4</sub>	28	25	22	16 <sup>1</sup> / <sub>2</sub>	22 <sup>1</sup> / <sub>8</sub>	19 <sup>3</sup> / <sub>4</sub>	30	28
4th Quarter	(10 <sup>1</sup> / <sub>2</sub> )	42	(8 <sup>3</sup> / <sub>8</sub> )	33 <sup>1</sup> / <sub>8</sub>	27 <sup>1</sup> / <sub>2</sub>	25	22	19	no sales		29	29

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

## Notes:

- (1) Oil, gas and royalty revenues for the years 1981 to 1984 have been restated to retroactively reflect the reclassification of production revenue taxes as a separate expense item.
- (2) Capital expenditures for the year 1981 are net after sales.
- (3) Restated to retroactively reflect the number of shares arising out of the 1985 four-for-one subdivision.
- (4) Number of shareholders as at March 1, 1985 — 728.
- (5) Based on outstanding shares prior to subdivision; 1980-1983 (1,961,520); 1984 (1,961,519). One share was surrendered to the Company in 1984. Bracketed figures reflect adjusted market prices, to the nearest fraction, following the subdivision and are based on 7,846,076 outstanding shares.



# 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 Petroleum 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*

*Macleod Dixon*

DAVID M. TYERMAN, Q.C.

*Regina, Saskatchewan*

*Barrister & Solicitor*

*MacPherson, Leslie & Tyerman*

\*Member of the Audit Committee

## EXECUTIVE OFFICE

715 Fifth Avenue Southwest

Calgary, Alberta

T2P 2X7

## REGISTERED OFFICE

2161 Scarth Street

Regina, Saskatchewan

S4P 2V4

## 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<sup>1</sup>

*Assistant Secretary*

*Norcen Energy Resources Limited*

EVELYN M. MACDONALD

Assistant Treasurer

*Assistant Treasurer*

*Norcen Energy Resources Limited*



**REGISTRARS &  
TRANSFER AGENTS**

Canada Permanent Trust Company  
Regina, Saskatchewan  
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.

Photography by  
The Kelly Group, Calgary



Norcen Tower, Calgary, Alberta  
Company's Executive Office  
*(photograph courtesy of The Calgary Herald)*



A decorative graphic consisting of two parallel diagonal lines, one dark blue and one red, extending from the bottom left towards the top right of the page.

**Prairie Oil Royalties  
Company, Ltd.**