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Prairie Oil Royalties

COMPANY, LTD.



ANNUAL REPORT

1980

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 8 1981
MCGILL UNIVERSITY

Directors

- *Donald D. Barkwell Calgary, Alberta
Senior Vice-President, Natural Resources
Norcen Energy Resources Limited
- *Edward A. Galvin Calgary, Alberta
President
Poco Petroleum Ltd.
- Wilfrid A. Loucks Calgary, Alberta
Vice-President, Minerals
Norcen Energy Resources Limited
- *Frederick A. McKinnon Calgary, Alberta
Director of various companies
- Clifford A. Rae Calgary, Alberta
Barrister & Solicitor
Macleod Dixon,
Barristers & Solicitors
- David M. Tyerman, Q.C. Regina, Saskatchewan
Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors
- *Member of the Audit Committee

Officers

- Donald D. Barkwell President
Senior Vice-President, Natural Resources
Norcen Energy Resources Limited
- Peter Kaye Vice-President, Exploration
Vice-President, Exploration
Norcen Energy Resources Limited
- William C. Hennenfent Vice-President, Production
Vice-President, Production
Norcen Energy Resources Limited
- David M. Tyerman, Q.C. Secretary
Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors
- A. Kenneth Davies Treasurer
Assistant Treasurer
Norcen Energy Resources Limited
- William T. Kilbourne Assistant Secretary
Vice-President, Administration and Secretary
Norcen Energy Resources Limited
- Russell G. Rennie Assistant Secretary
Assistant Secretary
Norcen Energy Resources Limited

DESCRIPTION OF BUSINESS

Prairie Oil Royalties Company, Ltd. was incorporated July 13, 1951 as a public company under the laws of the Province of Saskatchewan, Canada. 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 and the Canadian Arctic. The Company also holds interests in exploratory lands in the Yukon and Northwest Territories.

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held on Thursday, April 30, 1981 at 10:30 o'clock in the forenoon, local time, in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715-5th Ave. S.W., Calgary, Alberta, Canada T2P 2X7.

Executive Office

715-5th Avenue S.W., Calgary, Alberta T2P 2X7

Registered Office

2161 Scarth Street, Regina, Saskatchewan S4P 2V4

Auditors

Thorne Riddell, Calgary, Alberta

Registrars & Transfer Agents

Canada Permanent Trust Company,
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,
New York, N.Y.

Stock Exchange Listings

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

715 - 5th Avenue South West
CALGARY, ALBERTA, CANADA T2P 2X7

Notice of Annual Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Prairie Oil Royalties Company, Ltd. (the "Company") will be held in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715 Fifth Avenue South West, Calgary, Alberta, Canada on Thursday, April 30, 1981 at 10:30 o'clock in the forenoon, local time, for the following purposes:

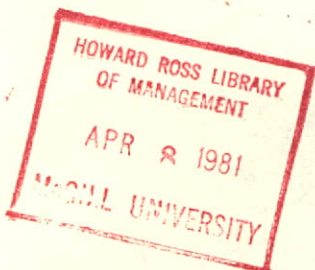
1. to receive and consider the annual report, the financial statements for the year ended December 31, 1980 and the auditors' report thereon;
2. to elect directors;
3. to appoint auditors and authorize the Board of Directors to fix their remuneration;
4. to transact such other business as may properly be brought before the meeting and at any adjournment or adjournments 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 Canada Permanent Trust Company, 311 Sixth Avenue South West, Calgary, Alberta, Canada T2P 0R6.

DATED at the City of Calgary, in the Province of Alberta, Canada, this 31st day of March, 1981.

BY ORDER OF THE BOARD OF DIRECTORS.

R. G. RENNIE,
Assistant Secretary



PRAIRIE OIL ROYALTIES COMPANY, LTD.

715 - 5th Avenue South West
CALGARY, ALBERTA, CANADA T2P 2X7

Proxy Circular and Statement

March 16, 1981

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 Meeting of the Shareholders of the Company called for April 30th, 1981 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 expense 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 31, 1981.

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 proxy 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, as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy, 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, at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof, or by depositing such form of proxy or of revocation with the chairman of the meeting at the meeting or any adjournment thereof, or in any other manner permitted by law.

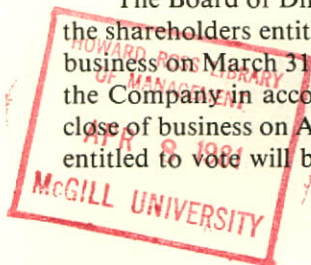
Exercise of Discretion by Proxies

Subject to Section 112 of The Securities Act 1967, 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 and for the appointment of auditors, as stated under those headings in this proxy circular and statement.**

The attached form of proxy confers discretionary authority upon the the persons appointed with respect to amendments to matters identified in the notice of the 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 properly come before the meeting, the persons named in the enclosed form of proxy will vote on such matters in accordance with their best judgment.

Voting Shares

The Board of Directors has fixed the close of business on March 31, 1981 as the record date for determination of the shareholders entitled to receive notice of the meeting. Only persons who are shareholders of record at the close of business on March 31, 1981, 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, 1977, of Saskatchewan, by the close of business on April 21, 1981, 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 shares. There are 1,961,520 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 per cent 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 the sole person beneficially owning, or exercising control or direction over, more than 5% of the outstanding shares of the Company:

Name and address of beneficial owner	Class of shares	Number of shares owned	Per cent of class owned
Norcen Energy Resources Limited, Suite 4600, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, Ontario.	Common	1,459,309	74.4%

In December 1979, Labrador Mining and Exploration Company Limited ("Labrador") acquired 2,400,000 common shares of Norcen through market purchases. Pursuant to an offer on the floors of the Montreal and Toronto Stock Exchanges, Labrador acquired an additional 7,243,250 common shares of Norcen at \$40.00 a share on February 1, 1980. The shares held by Labrador constitute a 34.65% aggregate common share interest in Norcen as at March 2, 1981. The Company understands that these purchases were financed by loans from certain Canadian chartered banks.

Hollinger Argus Limited ("Hollinger Argus"), a mining and investment company, owns 67% of Labrador's outstanding shares. The Ravelston group of private companies, which is controlled by Conrad M. Black and G. Montegu Black, owns 59% of the outstanding shares of Hollinger Argus.

The foregoing information as to share ownership, not being within the knowledge of the Company, has been furnished by the companies referred to.

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 each class of shares of Norcen that carries general voting rights, by the Company's directors and officers, as a group.

Corporation	Class of Shares	Number of shares owned	Per cent of class owned
Prairie Oil Royalties Company, Ltd.	Common	901	0.0459
Norcen Energy Resources Limited	Common	32,677	0.1225
Norcen Energy Resources Limited	Junior Preference	200	0.0268

As of March 2, 1981, no director beneficially owned, or exercised control or direction over, more than 0.0410% of the outstanding shares of the Company or more than 0.0895% of the outstanding common or junior preference shares of Norcen.

Annual Report, Financial Statements and Auditors' Report

The Annual Report, including the financial statements for the year ended December 31, 1980 and the Auditors' Report thereon, will be received and considered by the shareholders at the meeting. The shares represented by the proxies solicited hereby will not be voted with respect to these reports and financial statements and the execution of a proxy shall not be construed as either approval or disapproval of any of such reports or financial statements or any matters referred to therein.

Election of Directors

Under the Articles and By-Law No. 1 of the Company, the Board of Directors consists of a minimum of 3 members and a maximum of 15 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 6 directors in office which is the number of directors to be elected at the meeting. A director need not be a shareholder of the Company.

In the following table are the names and ages of the 6 persons proposed to be nominated by the Board of Directors 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 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 2, 1981. 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 but should any nominee become unable to do so for any reason prior to the meeting, the persons named in the attached 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.

Names and present principal occupations or employments	Age	Served as a director since	Shareholdings (1)	
			Company Shares	Norcen Common Shares
BARKWELL, Donald D. President of the Company, Senior Vice-President Natural Resources, Norcen Energy Resources Limited	50	April 30, 1973	Nil	3,911
GALVIN, Edward A. President and director, Poco Oil Ltd. (investment company) and Poco Petroleum Ltd. (oil and gas exploration and development company)	68	May 19, 1966	800	20,373
LOUCKS, Wilfrid A. Vice-President Minerals, Norcen Energy Resources Limited. President, Coleman Collieries Limited (coal mining company)	57	March 7, 1974	Nil	2,019
MCKINNON, Frederick A. Company director	63	May 19, 1966	Nil	Nil
RAE, Clifford A. Barrister and Solicitor, Partner with Macleod Dixon, Barristers and Solicitors.	43	May 19, 1966	Nil	Nil
TYERMAN, David M., Q.C. Secretary of the Company, Barrister and Solicitor, Counsel with MacPherson, Leslie & Tyerman, Barristers and Solicitors	74	July 19, 1963	100	600(2)

- (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 common shares of Norcen and Mr. D. M. Tyerman - 200 common shares of Norcen, as to which they disclaim beneficial ownership.
- (2) In addition to his holdings of Norcen common shares, Mr. Tyerman holds 200 Norcen Convertible Junior Preference shares, 1979 Series.

Background Information on Nominees for Election as Directors

Messrs. Barkwell, Galvin and Loucks 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. Mr. Galvin retired as Vice-Chairman of Norcen in 1978 but remains a director of that company. He is also a director of Alberta Energy Company Ltd., Bonanza Oil and Gas Ltd., Consolidated-Bathurst Inc., Domglas Inc., and a number of investment companies.

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. At the present time he is a director of Allegro Resources Ltd., Deb Explorations Limited, Fluor Canada Ltd., Novalta Resources Ltd. and Nova, An Alberta Corporation.

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.

Meetings of the Board and Audit Committee

During the last full fiscal year there were 3 meetings of the Board of Directors. The only committee of the Board of Directors is the Audit Committee, composed of 3 directors, 2 of whom are neither officers nor employees of the Company. 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 personnel. The present members of the Committee are Messrs. Barkwell, Galvin and McKinnon (Chairman). The Audit Committee held one meeting during 1980.

Directors attending fewer than 75% of the aggregate of the total number of meetings of the Board of Directors and the Audit Committee were Mr. Tyerman (50%), Mr. Galvin (25%) and Mr. Rae (25%).

Remuneration of Directors and Officers (Year ended December 31, 1980)

Name of individual or Identity of group	Capacity in which served	Aggregate remuneration (c)
1. Each of the five highest paid directors or executive officers whose aggregate remuneration exceeded \$50,000 per annum	—	Nil
2. All directors (a) and officers (b) as a group	Directors (d)	\$5,500
<p>(a) The aggregate number of directors who received remuneration referred to above was six.</p> <p>(b) With the exception of Mr. David M. Tyerman, who does not receive a salary as Secretary of the Company, all of the officers are employees of Norcen and receive remuneration from Norcen and participate in the employee benefit plans maintained by Norcen. (see - Management on Page 5).</p> <p>(c) None of the directors and officers of the Company received personal benefits from the Company during 1980.</p> <p>(d) Effective January 1, 1980, only those directors who are not officers or employees of Norcen receive, in consideration for their services, an annual fee of \$1,000 plus an attendance fee of \$250 for each meeting of the Board or Audit Committee attended.</p>		

Other Transactions

Norcen has purchased and maintains insurance covering liability of the directors and officers of Norcen and its subsidiaries (including the Company) as a group, for actual or alleged wrongful acts (as defined) while acting in their capacities as directors and officers. The insurers will pay for losses (as defined) which the directors or officers of the Company become obligated to pay in excess of \$5,000 per director or officer or \$10,000 per claim up to a maximum of \$20,000,000 in a policy year. The amount of the premium for this insurance coverage in respect of 1980 was \$46,229 and was paid by Norcen and certain of its subsidiaries, including the Company.

The firm of Macleod Dixon of which Mr. C. A. Rae (residing at 96 Massey Place S.W., Calgary, Alberta T2X 2G8) is a partner, and the firm of MacPherson, Leslie & Tyerman of which Mr. D. M. Tyerman (residing at 3465 Argyle Road, Regina, Saskatchewan S4S 2B7) is a partner, received or will receive approximately \$3,000 and \$2,700 respectively for legal services rendered to the Company during 1980. In addition to services rendered directly to the Company, Macleod Dixon rendered legal services to Norcen and its subsidiaries (including the Company) as a group. The Company's share of the fees for such services rendered by Macleod Dixon is included in the management fee paid to Norcen. The Company proposes to retain these firms in the current fiscal year.

Appointment of Auditors

As set forth in the notice, 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 the retiring auditors, Thorne Riddell, (formerly Thorne Riddell & Co.) as auditors of the Company to hold office until the next annual meeting of shareholders. Thorne Riddell were first appointed as auditors of the Company on October 27, 1967 under the name of Riddell, Stead & Co.

Thorne Riddell receives fees for examining and reporting on the Company's annual financial statements and performing related audit functions, including consultation on accounting-related matters and reviewing the Company's periodic filings with securities authorities. These services are approved by the Audit Committee of the Board of Directors.

In addition, Thorne Riddell receives fees for providing certain non-auditing services to the Company as requested from time to time. Thorne Riddell did not provide any non-auditing services in respect of the year 1980. Non-auditing services, when provided by Thorne Riddell, are not specifically approved in advance by the Board of Directors or by the Audit Committee of the Board. The Audit Committee does review the non-auditing services provided by Thorne Riddell and satisfies itself that the provision of such services by Thorne Riddell has or had no effect on that firm's independence.

It is expected that representatives of Thorne Riddell will 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.

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 or adjournments thereof, in accordance with the discretion of the persons authorized to act thereunder.

Management

Since August 1, 1966, management services have been provided to the Company by Norcen (formerly Canadian Industrial Gas & Oil Ltd.) under the terms of a management contract made as of that date. A new contract was negotiated effective January 1, 1974, whereby the fee paid to Norcen for such services 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, 1980, the fee paid and payable to Norcen was \$801,968 composed of \$292,314 for exploration overhead and \$509,654 for administration overhead. The comparative amounts for the year ended December 31, 1979 were \$688,149, \$299,618 and \$388,531 respectively.

The insiders of Norcen as at March 2, 1981 are as set forth in the attached schedule "A".

Annual Report on Form 10K

Upon written request by any shareholder to the Secretary of the Company 715-5th Avenue South West, Calgary, Alberta, T2P 2X7, the Company will provide without charge, a copy of the Company's 1980 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

Proposals intended to be presented by a shareholder or shareholders of the Company at the annual meeting to be held in 1982 must be received at the offices of the Company no later than January 29, 1982 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 in substance the contents of this Proxy Circular and Statement and the sending of this Proxy Circular and Statement to shareholders.

R. G. RENNIE
Assistant Secretary

SCHEDULE "A"
Insiders of Norcen as at March 2, 1981

ANDERSON, Robert F.
3585 Eldorado Drive
Rocky River, Ohio

ARCHER, Maurice
R. R. #1
Brome, Quebec

AYRE, Lewis H. M.
26 King's Bridge Road
St. John's, Newfoundland

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

BATTLE, Edward G.
46 Chestnut Park Road
Toronto, Ontario

BLACK, Conrad M.
26 Park Lane Circle
Don Mills, Ontario

BLACK, G. Montegu
23 Wilket Road
Willowdale, Ontario

BOVEY, Edmund C., C.M.
33 York Ridge Road
Willowdale, Ontario

CHANT, Dixon S.
167 Coldstream Road
Toronto, Ontario

COCHRANE, Barry D.
19 Sonata Crescent
Don Mills, Ontario

COURTOIS, E. Jacques, Q.C.
9 Chelsea Place
Montreal, Quebec

COWAN, C. G.
8 Powell Avenue
Toronto, Ontario

CROOKSTON, J. Ian
187 Cottingham Street
Toronto, Ontario

DESPRES, Robert, O. C.
890 Dessane Ave.
Sainte-Foy, Quebec

DUGUID, Alick S. G.
2202 Breezy Brae Drive
Mississauga, Ontario

DUNLAP, David M.
R. R. #1
Kettleby, Ontario

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

FINLAY, John R., Q.C.
6 St. Margaret's Drive
Toronto, Ontario

FINLAY, Percy C., Q.C.
185 Alexandra Blvd.
Toronto, Ontario

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

GEREN, Richard
Sept-Îles, Quebec

HENNENFENT, William C.
4608 Coronation Drive S.W.
Calgary, Alberta

HOLLINGER ARGUS
LIMITED
Toronto, Ontario

HUYCKE, Frederick A.M., Q.C.
39 Rosedale Heights Drive
Toronto, Ontario

KAYE, Peter, Ph.D.
703 Lake Placid Drive S.E.
Calgary, Alberta

KILBOURNE, William T.
#301, 585 Avenue Road
Toronto, Ontario

LABRADOR MINING AND
EXPLORATION COMPANY
LIMITED
Toronto, Ontario

LEROUX, Jean-Jacques
44 Colonnade Road
Willowdale, Ontario

LOUCKS, Wilfrid A.
2609 - 10th Street S.W.
Calgary, Alberta

LOVE, Richey B., Q.C.
18 - 3203 Rideau Place S.W.
Calgary, Alberta

McKEAG, Hon. W. John
560 Park Boulevard West
Winnipeg, Manitoba

MULRONEY, M. Brian
68 Belvedere Road
Westmount, Quebec

NICKELS, C. E., Jr.
2824 Goldwood Drive
Rocky River, Ohio

PALMER, Paul H.
54 Chiswell Crescent
Willowdale, Ontario

RADLER, F. David
1360 Camwell Drive
West Vancouver, B.C.

ROSS, C. Bruce
67 The Kingsway
Toronto, Ontario

SHEERES, Timothy G.
23 Donwoods Drive
Toronto, Ontario

SPARROW, Barbara J.
7 Eagle Ridge Place S.W.
Calgary, Alberta

TWAITS, William O., C.C.
17 Old Forest Hill Road
Toronto, Ontario

WHITE, Peter G.
130 Pond Mills Rd.
London, Ontario

WHITE, Wendell F.
214 Bambury Road
Toronto, Ontario

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

YARNELL, John R.
161 Roxborough Drive
Toronto, Ontario

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Form of Proxy

Solicited by the Board of Directors of the Company for the 1981 Annual Meeting of Shareholders

The undersigned shareholder of Prairie Oil Royalties Company, Ltd. (the "Company") hereby appoints Donald D. Barkwell or, failing him, Wilfrid A. Loucks with power of substitution, or, instead of either of them, _____ as nominee of the undersigned, to attend and vote on behalf of the undersigned at the annual meeting of shareholders of the Company to be held on April 30, 1981, and at any adjournment or adjournments thereof:

(a) **Election of Directors**

Nominees: D. D. Barkwell, E. A. Galvin, W. A. Loucks, F. A. McKinnon, C. A. Rae, D. M. Tyerman

FOR all nominees listed above, except as marked to the contrary

WITHHOLD VOTE for all nominees listed above

(Instruction: to withhold authority to vote for any individual nominee strike a line through the nominee's name in the list above.)

(b) **Appointment of Thorne Riddell** as Auditors at a remuneration to be fixed by the Board of Directors.

FOR **AGAINST** **WITHHOLD VOTE**

(c) In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

Number of Shares _____

Dated _____ Signature _____

This form of proxy must be signed and dated by the shareholder or the shareholder's attorney authorized in writing.

A shareholder has the right to appoint a person other than any of the nominees designated in this form of proxy to attend and act on his behalf at the meeting. This right may be exercised by inserting such other person's name in the blank space provided for that purpose or by completing another form of proxy.

In the absence of any directions to the contrary, this proxy will be voted for all nominees listed in proposal (a) and for proposal (b).

The completed form of proxy to be voted at the meeting must be received by the Secretary of the Company, c/o Canada Permanent Trust Company, 311 Sixth Avenue S.W., Calgary, Alberta, T2P 0R6, Canada, prior to the meeting or by the Chairman of the meeting or the Secretary at the meeting.

**PLEASE INDICATE
ANY CHANGE OF ADDRESS**

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MCGILL UNIVERSITY
MANAGEMENT LIBRARY
1001 SHERBROOKE ST W
MONTREAL 110 QUEBEC

452 01-57-40000-0
S/M

Report to the Shareholders

Financial

Substantial gains in revenue, cash flow and net income were recorded in 1980. Revenue from all sources totalled \$7,501,000, an increase of \$1,335,000 or 22% over 1979 revenue, due entirely to higher prices received for the Company's production. Cash flow was \$6,496,000 or \$3.31 a share compared with \$5,183,000 or \$2.64 a share in 1979. Net income, at \$3,150,000 or \$1.61 a share, was \$903,000 higher than 1979 net income of \$2,247,000 or \$1.15 a share.

A more detailed financial analysis of the Company's operations for 1980 will be found on Page 13 of this Report.

Production

Average daily production for 1980 before deducting royalties was 787 barrels of oil and natural gas liquids and 9,169 Mcf of gas, compared to 800 barrels and 9,366 Mcf in 1979. The production of oil and gas liquids from West Pembina showed a further increase during 1980 but the increase was more than offset by production declines in older fields. Most of the decrease in natural gas production during 1980 was due to reduced exports to the United States of America where improvements in domestic supply have resulted from increased exploration activity and price de-regulation.

The price of Western Canadian crude oil increased \$1.00 a barrel on January 1, 1980 and \$2.00 a barrel on August 1, 1980. The average price received by the Company was \$14.62 a barrel, an increase of \$2.31 a barrel over the 1979 average price. Wellhead price increases on February 1 and September 1, 1980 and export price adjustments during the year raised the average price received for gas sold to \$2.13 an Mcf from \$1.64 an Mcf in the preceding year.

Reserves

Estimated reserves at December 31, 1980 before royalties were 2.96 million barrels of crude oil and natural gas liquids, unchanged from last year, and 66.7 billion cubic feet of natural gas compared to 70.3 billion cubic feet of natural gas at December 31, 1979. 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. Further information on the Company's reserves appears in Note 5 to the financial statements

Outlook

The reduction in Canadian exports of natural gas to the United States and its effect on the Company's 1980 results has already been mentioned. This situation could continue for two or three years.

Two other events which will have an effect on the Company's growth and earnings in 1981 and beyond are the Federal Budget introduced on October 28, 1980 and the National Energy Program announced at the same time. Included in these measures was an 8% petroleum and natural gas revenue tax which came into effect on January 1, 1981. The National Energy Program has undergone some modification since its introduction and there are indications of further changes which may mitigate its impact on the industry and the Company. Therefore it is still too early to make an accurate assessment of the overall effect of these measures on the Company's operations.

On Behalf of the Board



Calgary Alberta
March 16, 1981

D. D. Barkwell
President

Exploration and Development

Taber-Chin Coulee

The Company is carrying out an active exploration program in the general Taber-Chin Coulee area of southern Alberta (see map) involving almost 100,000 acres, some of which were acquired during 1980. The Company's interests in these lands range from 4% to 27½%. A major drilling program planned for 1981 could result in the drilling of as many as twenty wells in this area. Some success has already resulted from the program but detailed information is being held confidential pending disposition of unleased lands in the immediate area.

Hoadley

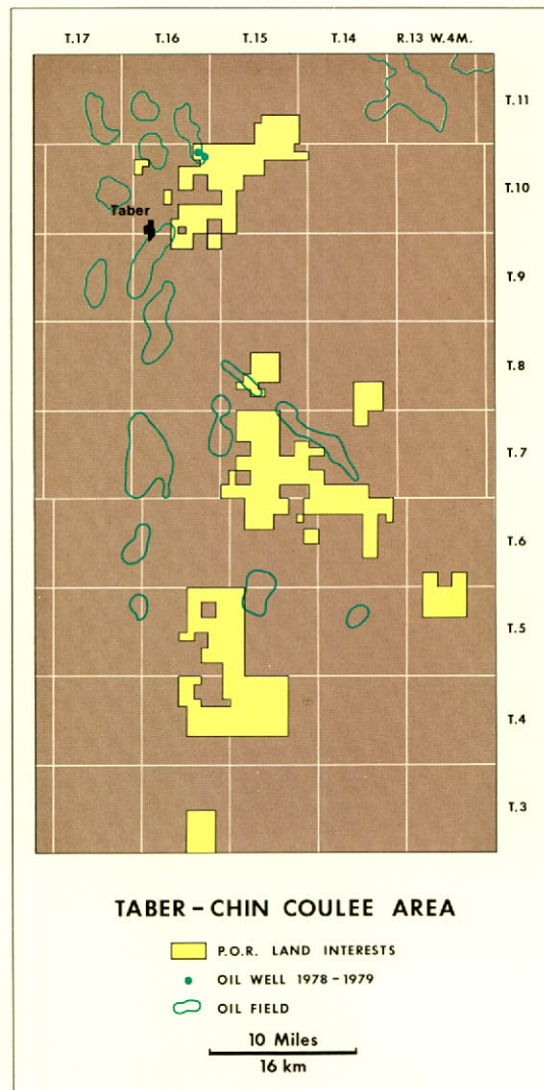
A further gas well was drilled at Hoadley in central Alberta during 1980. The Company now has a 7½% interest in four gas wells in this area. The latest well appears to have the greatest potential of the four wells drilled to date. Further drilling in the area is uncertain at the present time due to the lack of gas markets.

Big Bend-Athabasca

The Company participated in the drilling of four gas completions from the Cretaceous Sands in the general Big Bend-Athabasca area located 100 miles north of the city of Edmonton. Two of these wells are located in the Rourke-Chisholm section of the area where the Company has a 12½% interest. The other two are located in the Athabasca section where the Company's interest is 37½%.

Thunder

This area is located in central Alberta, approximately 25 miles northwest of Glenevis. Early in 1980 the Company participated to the extent of a 5% interest in the purchase of a petroleum and natural gas license on



which two wells have been drilled. The first well resulted in a multi-zone gas and oil well. The second well, an offset to the first well, was drilled one mile to the west and also was completed as a gas and oil discovery. Further drilling is planned for the immediate future.

Brewster Creek

At Brewster Creek in the Deep Basin area of western Alberta, the Company parti-

icipated to the extent of a 12.5% interest in an 11,000 foot Mississippian test completed as an Elkton gas well. Further drilling in this area has not been finalized due to lack of gas markets.

Minnehik

In the Minnehik area of central Alberta, the Company participated to the extent of a 5% interest in an Ostracod Sand oil completion. This well is producing at the rate of 160 barrels of oil a day. A one mile offset to this discovery has been drilled and is awaiting production testing. The Company has participated also in two land acquisitions in the immediate area. Considerable drilling activity is anticipated in this area during 1981.

Arctic Islands

There has been no activity on the Company's holdings in the Arctic Islands since 1978 apart from a 148 mile onshore seismic program completed on the Sabine Peninsula in 1980 to investigate deeper zones. A 121 mile seismic program is to be conducted over the Company's holdings during 1981.

West Pembina

Pressure maintenance by natural gas injection has commenced in the Brazeau River Nisku 'A' Pool and will be initiated in the WestPem Nisku 'D' Pool early in 1981. A waterflood scheme is underway in the WestPem Nisku 'C' Pool. In the Nisku 'E' Pool, facilities are in place for the production of natural gas and condensate and for the reinjection of natural gas commencing in early 1981. The Company has a 1.75% interest in the Brazeau River pool and 5% in the other three pools.

These enhanced recovery projects are expected to triple the Company's total share of production from the West Pembina field to over 300 barrels a day of oil and condensate

by the end of 1981. However, production cut-backs by the Province of Alberta pending settlement of the energy dispute with the federal government may reduce this level by about one-third while they are in effect.

Athabasca

Recent exploratory activity in this area has resulted in the addition of natural gas reserves of approximately 4.5 billion cubic feet to the Company's gas sales contract for the area. The recent gas completions in this area will be tied-in to the field gathering system and placed on production during the first half of 1981.



Drilling Summary

During 1980 the Company participated in the drilling of 54 (7.48 net) wells resulting in 5 (.29 net) oil wells and 29 (4.36 net) gas wells. 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, 1980.

Year	Exploratory Wells				Development Wells			
	Gross Wells	Net Wells			Gross Wells	Net Wells		
		Oil	Gas	Dry Holes		Oil	Gas	Dry Holes
1976	23	.04	1.06	3.38	29	.47	5.12	1.05
1977	20	.42	1.17	3.21	31	.50	7.58	.56
1978	31	.48	1.53	4.91	6	—	.54	—
1979	31	.47	2.34	2.19	19	.05	4.03	—
1980	40	.29	2.19	2.83	14	—	2.17	—
	<u>145</u>	<u>1.70</u>	<u>8.29</u>	<u>16.52</u>	<u>99</u>	<u>1.02</u>	<u>19.44</u>	<u>1.61</u>

As at December 31, 1980 the Company had interests in 851 gross (51 net) producing oil and gas wells.

Oil and Gas Landholdings

At December 31, 1980 the Company owned interests in 3,525,014 gross (334,014) net acres compared to 4,009,561 gross (344,300 net) at the end of 1979. These landholdings include 400,677 gross (55,977 net) producing acres and are shown in detail in the following summary:

	Leases		Reservation & Permits		Total	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
	British Columbia	124,127	6,808	8,371	288	132,498
Alberta	874,913	163,273	196,160	20,982	1,071,073	184,255
Saskatchewan	89,783	34,153	—	—	89,783	34,153
Manitoba	72,642	20,929	—	—	72,642	20,929
Ontario	3,743	776	—	—	3,743	776
Arctic Islands	102,630	3,232	2,013,305	81,900	2,115,935	85,132
Northwest Territories	39,340	1,673	—	—	39,340	1,673
	<u>1,307,178</u>	<u>230,844</u>	<u>2,217,836</u>	<u>103,170</u>	<u>3,525,014</u>	<u>334,014</u>

In addition to the above, royalty interests are held in 216,701 acres.

Financial Statements

years ended December 31, 1980, 1979 and 1978

Accounting Policies

The Annual Report and the accompanying financial statements have been prepared by Management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and comply with United States disclosure requirements. Additional disclosures are included in the notes to the financial statements to comply with recent amendments to the United States Securities and Exchange Commission rules and regulations. The amounts contained in this report are in Canadian dollars unless otherwise stated. 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 financial statements.

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, together with the excess of acquisition cost over underlying value of net assets at date of purchase. These costs are depleted on the composite unit of production method based on total estimated 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 a composite rate of approximately 8.3% (7.8% in 1979, 7.3% in 1978).

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

Amounts received for annual contracted gas volumes not taken by pipeline purchasers are deferred and will be recognized as revenue when deliveries are made or upon expiry of the period allowed for such deliveries. Amounts received in prior years have been reclassified from current liabilities.

BALANCE SHEET

as at December 31, 1980 and 1979
(thousands of dollars)

Assets

CURRENT ASSETS

Accounts receivable	\$ 1,946	\$ 1,752
Income taxes recoverable	648	466
Drilling and other deposits	43	58

2,637 2,276

PROPERTIES, PLANT AND EQUIPMENT (note 2) 33,620 28,075

\$36,257 \$30,351

Liabilities

CURRENT LIABILITIES

Bank indebtedness	\$ 27	\$ 464
Bank loan, unsecured	2,585	3,420
Accounts payable and accrued liabilities	1,838	676
Due to parent company	405	190

4,855 4,750

DEFERRED GAS REVENUES 1,541 246

DEFERRED INCOME TAXES 6,971 5,615

Shareholders' Equity

CAPITAL STOCK

Issued 1,961,520 Common Shares 1,962 1,962

CONTRIBUTED SURPLUS 574 574

RETAINED EARNINGS 20,354 17,204

22,890 19,740

\$36,257 \$30,351

Approved by the Board

D. D. Barkwell, Director

W. A. Loucks, Director

STATEMENT OF INCOME

years ended December 31, 1980, 1979 and 1978
(thousands of dollars except per share amounts)

	<u>1980</u>	<u>1979</u>	<u>1978</u>
REVENUE			
Oil and gas sales	\$5,983	\$4,695	\$2,720
Royalties	1,501	1,322	930
Interest	<u>17</u>	<u>149</u>	<u>675</u>
	<u>7,501</u>	<u>6,166</u>	<u>4,325</u>
EXPENSES			
Production	785	592	421
Depletion	1,648	1,453	556
Depreciation	343	262	171
General and administrative			
Charges from parent company	510	389	145
Other	46	62	58
Interest	<u>334</u>	<u>395</u>	<u>13</u>
	<u>3,666</u>	<u>3,153</u>	<u>1,364</u>
Income before income taxes	<u>3,835</u>	<u>3,013</u>	<u>2,961</u>
Income taxes (note 3)			
Current (recovery)	(671)	(454)	(424)
Deferred	<u>1,356</u>	<u>1,220</u>	<u>1,226</u>
	<u>685</u>	<u>766</u>	<u>802</u>
NET INCOME	<u>\$3,150</u>	<u>\$2,247</u>	<u>\$2,159</u>
NET INCOME PER SHARE	<u>\$1.61</u>	<u>\$1.15</u>	<u>\$1.10</u>

STATEMENT OF RETAINED EARNINGS

years ended December 31, 1980, 1979 and 1978
(thousands of dollars)

	<u>1980</u>	<u>1979</u>	<u>1978</u>
BALANCE AT BEGINNING OF YEAR	\$17,204	\$14,957	\$12,798
Net income	<u>3,150</u>	<u>2,247</u>	<u>2,159</u>
BALANCE AT END OF YEAR	<u>\$20,354</u>	<u>\$17,204</u>	<u>14,957</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended December 31, 1980, 1979 and 1978
(thousands of dollars)

	<u>1980</u>	<u>1979</u>	<u>1978</u>
SOURCE OF FUNDS			
Operations	\$ 6,496	\$ 5,183	\$ 4,112
Increase in deferred gas revenues	<u>1,296</u>	<u>48</u>	<u>198</u>
	7,792	5,231	4,310
APPLICATION OF FUNDS			
Properties, plant and equipment	<u>7,536</u>	<u>13,374</u>	<u>7,063</u>
INCREASE (DECREASE) IN FUNDS	<u>\$ 256</u>	<u>\$(8,143)</u>	<u>\$(2,753)</u>
CHANGES IN COMPONENTS OF FUNDS ARE REPRESENTED BY:			
Cash and deposits	\$ —	\$(4,785)	\$(3,740)
Accounts receivable	194	790	280
Income taxes recoverable	182	(245)	614
Drilling and other deposits	(15)	(12)	18
Bank indebtedness	437	(464)	—
Bank loan, unsecured	835	(3,420)	—
Accounts payable and accrued liabilities	(1,162)	68	10
Due to parent company	<u>(215)</u>	<u>(75)</u>	<u>65</u>
INCREASE (DECREASE) IN FUNDS	<u>\$ 256</u>	<u>\$(8,143)</u>	<u>\$(2,753)</u>

Auditors' Report

TO THE SHAREHOLDERS OF
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd. as at December 31, 1980 and 1979 and the statements of income, retained earnings and changes in financial position for each of the three years ended December 31, 1980. 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 financial statements present fairly the financial position of the company as at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1980 in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
February 3, 1981

THORNE RIDDELL
Chartered Accountants

Notes to Financial Statements

years ended December 31, 1980, 1979 and 1978
(thousands of dollars except per share amounts or unless otherwise stated)

1. ACCOUNTING POLICIES

The information on page 5 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2. EXPLORATION AND PRODUCTION ACTIVITIES

The Company has capitalized costs in oil and gas activities as follows:

	<u>Year ended December 31,</u>	
	<u>1980</u>	<u>1979</u>
Properties	\$35,797	\$29,982
Production equipment	<u>5,856</u>	<u>4,135</u>
	41,653	34,117
Accumulated depreciation, depletion and amortization	<u>8,033</u>	<u>6,042</u>
Capitalized costs	<u>\$33,620</u>	<u>\$28,075</u>

The following table presents information on the Company's oil and gas producing activities:

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Costs capitalized in the year			
Property acquisition	\$1,350	\$ 9,189	\$2,842
Exploration	3,361	3,002	3,025
Development	<u>2,825</u>	<u>1,183</u>	<u>1,196</u>
Total capitalized	<u>\$7,536</u>	<u>\$13,374</u>	<u>\$7,063</u>

Included in the above are exploration overhead costs of \$292 during 1980, \$299 during 1979 and \$290 during 1978 charged by the parent company.

Depreciation, depletion and amortization expense	<u>\$1,991</u>	<u>\$ 1,715</u>	<u>\$ 727</u>
Net revenues from producing oil and gas			
Revenue	\$7,484	\$ 6,017	\$3,650
Production expenses	<u>785</u>	<u>592</u>	<u>421</u>
Net revenue	<u>\$6,699</u>	<u>\$ 5,425</u>	<u>\$3,229</u>

3. 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:

	<u>1980</u>	<u>1979</u>	<u>1978</u>
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation ...	\$1,706	\$1,379	\$1,276
Other Items	<u>(350)</u>	<u>(159)</u>	<u>(50)</u>
	<u>\$1,356</u>	<u>\$1,220</u>	<u>\$1,226</u>

The provision for income taxes in the statement of income reflects effective tax rates of 17.9% in 1980, 25.4% in 1979 and 27.1% in 1978 on income before income taxes, which are lower than the Canadian federal statutory rate of 46%. Such income tax expense varies from the amounts that would be computed by applying the rate of 46% to income before income taxes for the following reasons.

	<u>1980</u>		<u>1979</u>		<u>1978</u>	
		<u>% of pretax income</u>		<u>% of pretax income</u>		<u>% of pretax income</u>
Computed income tax expense	\$1,764	46.0	\$1,386	46.0	\$1,362	46.0
Increase (Decrease) in income taxes resulting from:						
Income tax depletion	(744)	(19.4)	(460)	(15.3)	(329)	(11.1)
Non-deductible royalties, mineral taxes and other expense, less federal resource allowance and provincial rebates	(220)	(5.7)	(213)	(7.1)	(180)	(6.1)
Other, net	(115)	(3.0)	53	1.8	(51)	(1.7)
Actual income tax expense	<u>\$ 685</u>	<u>17.9</u>	<u>\$ 766</u>	<u>25.4</u>	<u>\$ 802</u>	<u>27.1</u>

4. QUARTERLY AND OTHER FINANCIAL DATA (UNAUDITED)

	<u>Quarter</u>				<u>Year</u>
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	
1980					
Sales and other revenue	\$2,234	\$1,867	\$1,510	\$1,890	\$7,501
Income before income taxes	1,215	1,111	783	726	3,835
Net income	867	818	742	723	3,150
Net income per common share	0.44	0.42	0.38	0.37	1.61
Market price per common share (i)					
High	30¼	25%	28%	27	30¼
Low	15¼	17½	22	14	14
1979					
Sales and other revenue					
as previously reported	\$1,439	\$1,101	\$1,170	\$2,456	\$6,166
as restated (ii)	1,611	1,276	1,348	1,931	6,166
Income before income taxes					
as previously reported	867	449	382	1,315	3,013
as restated (ii)	972	546	588	907	3,013
Net income					
as previously reported	602	367	332	946	2,247
as restated (ii)	725	407	455	660	2,247
Net income per common share					
as previously reported	0.31	0.19	0.17	0.48	1.15
as restated (ii)	0.37	0.21	0.23	0.34	1.15
Market price per common share (i)					
High	17¾	22	21¾	26¼	26¼
Low	13¾	15¾	16%	18	13¾

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

(ii) Reflects adjustments to previously reported revenue and operating expenses relating to oil and gas operations.

5. SUMMARY OF OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

Reserves as determined by company engineers are stated on page 1 of this report on a before royalty basis and include proven remaining reserves together with probable additional reserves reduced by a risk factor, all in accordance with Canadian practice.

The following information is provided in response to United States reporting requirements for which purpose information is to be provided on a proven reserve basis only after deducting royalty interest of others. Since all of the Company's proven reserves are developed, such information is provided only for proven developed reserves.

The following table summarizes the changes in quantities of net proven oil and gas reserves as determined by independent reservoir engineers (McDaniel and Associates Consultants Ltd.). Such quantities vary from the reserves determined by company engineers as reported on page 1 of this report, due to judgmental and timing differences in making reserve estimates.

	Year ended December 31,					
	1980		1979		1978	
	Oil & gas liquids	Gas	Oil & gas liquids	Gas	Oil & gas liquids	Gas
	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)	(000's bbls)	(Mmcf)
Beginning of year	1,759	36,848	1,284	34,243	1,201	19,821
Revisions of previous estimates	273	313	339	1,826	(135)	3,529
Purchase of reserves in place	—	—	—	—	98	10,334
Extensions, discoveries and other additions	—	3,984	328	3,012	242	2,051
Production	(199)	(2,145)	(192)	(2,233)	(122)	(1,492)
End of Year	<u>1,833</u>	<u>39,000</u>	<u>1,759</u>	<u>36,848</u>	<u>1,284</u>	<u>34,243</u>

6. RESERVE RECOGNITION ACCOUNTING (UNAUDITED)

The following information summarizes the oil and gas producing activities for the years indicated on the basis of the reserve recognition method of accounting as prescribed by the United States Securities and Exchange Commission ("SEC"). The SEC requires that reserve recognition accounting ("RRA") be presented as a supplement to the cost methods historically followed by oil and gas producing companies. The Company believes that RRA statements generally do not accurately reflect the economic value of oil and gas reserves or the income to be derived therefrom.

RRA attempts to (i) assign a value to proven reserves which is more indicative of the value of the reserves than cost, (ii) reflect additions to proven reserves and changes in valuation of proven reserves in the income statement and (iii) expense all costs of finding and developing additions to proven reserves, including all costs determined to be not productive, during the current period. In order to develop the values for inclusion in the balance sheet and the additions to proven reserves on the income statement, several assumptions are made. The present value information is calculated by applying a per annum discount rate of 10% as stipulated by the SEC to the estimated net proven reserves shown above. Income taxes have been calculated on the taxes payable basis by applying rates and other statutory provisions currently in effect.

The basis for the amounts presented includes projected production schedules, forecasted development and production costs, and estimates of reserve quantities. Because of the uncertainty inherent in any projections of the future, actual production volumes and development costs may vary from those utilized to calculate the present value of estimated future net

revenues. Further, to the extent that the actual cost of capital is different from the prescribed discount rate of 10%, the value of the reserves, as shown below, will be different.

In calculating the estimated future net revenues before income taxes at the end of 1980, prices and costs in effect at January 1, 1981 were assumed to continue for all future periods and provision was made for estimated future development expenditures that will be required to produce the reserves. However, draft provisions of the National Energy Program have not been reflected in this calculation.

The estimated future net revenues before income taxes as at December 31, 1980 expected to be earned in each of the three years subsequent to 1980 and in total for all future years are as follows:

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Thereafter</u>	<u>Total</u>
		(millions)		
\$5.2	\$6.1	\$6.0	\$75.6	\$92.9

The present value of estimated future net revenues discounted at 10% based on estimated reserves at the end of each year, calculated on the basis outlined above, is as follows:

<u>1980</u>	<u>1979</u>	<u>1978</u>
	(millions)	
\$44.5	\$37.5	\$27.1

The following table summarizes the oil and gas producing activities for the years indicated on the basis of RRA and was prepared under the assumptions stated above for proven developed reserves. RRA is based on the recognition of revenue at the time that proven reserves are determined. The summary of oil and gas producing activities on the basis of RRA sets out the present value (discounted at 10% per annum) of the future net revenues expected to be derived at current price and cost levels from the current year's exploration activities and evaluation of proven reserves.

	<u>Year ended</u> <u>December 31,</u>	
	<u>1980</u>	<u>1979</u>
	(millions)	
Additions and revisions to estimated proven reserves, net of royalties		
Additions to estimated proven reserves	\$ 2.0	\$ 4.9
Revisions to estimates of proven reserves in prior years		
Changes in prices	7.4	6.1
Other5	2.1
Accretion of discount	3.7	2.7
	13.6	15.8
Acquisition, exploration, development and production costs (i)	5.7	4.5
Additions and revisions to proven reserves over evaluated costs (ii)	7.9	11.3
Provision for income taxes (ii)	2.4	4.8
Results of oil and gas producing activities on the basis of RRA (ii)	<u>\$ 5.5</u>	<u>\$ 6.5</u>

(i) Property acquisition and exploration costs aggregating \$1.1 million to December 31, 1980 have not been included in the summary pending the determination of proven reserves.

(ii) The effect of incorporating the Petroleum and Gas Revenue Tax recently introduced in the National Energy Program would have been to reduce "Additions and revisions to proven reserves over evaluated costs" by \$5.4 million. Similarly the provision for income taxes would increase by \$0.08 million due to the loss of the earned depletion allowance on development expenditures.

The primary financial statements shown elsewhere herein recognize revenue upon the production and sale of the Company's reserves. For 1980 the profit contribution from the production and sale of oil and gas, before administrative expenses, interest and taxes, reflected in the primary financial statements is \$4.7 million (1979 - \$3.7 million).

The following table which was prepared using the assumptions stated above summarizes the changes in the present value of estimated future net revenues from proven reserves.

	Year ended December 31,	
	1980	1979
	(millions)	
Increase		
Net additions and revisions	\$13.6	\$15.8
Previously projected development costs	0.1	—
	13.7	15.8
Decrease		
Sales of oil and gas and value of transfers (net of production costs of \$0.8 and \$0.6 respectively)	6.7	5.4
Net increase	7.0	10.4
Beginning of year	37.5	27.1
End of Year	<u>\$44.5</u>	<u>\$37.5</u>

The present value of the estimated future net revenues from proven reserves as of the end of the year should not be viewed as the amount which might be realized in a sale of the reserves in place, nor as the amount which will be ultimately realized from production from the properties.

Management's Discussion and Financial Review

Revenue and Expenses

Net income increased in 1980 to \$1.61 per share from \$1.15 per share in 1979 and \$1.10 per share in 1978. Return on average common share equity was 14.8% in 1980 compared with 12.1% in 1979 and 13.2% in 1978. Funds provided from operations increased 25.4% over 1979. Comparatively 1979 was 26% over 1978.

1980 Compared to 1979

Sales and other revenues increased 22% above the 1979 level. The increase in oil and gas revenues primarily reflects price increases of \$1 per barrel of crude oil on January 1 and \$2 per barrel on August 1, 1980 and related increases of 15¢ per Mcf on natural gas on February 1 and 30¢ per Mcf on September 1, 1980.

Expenses, exclusive of income taxes, increased \$513,000 or 16%. Production expenses continued to rise due to inflationary pressures and higher costs to maintain producibility in existing fields. The increase in depreciation and depletion results from increased capital expenditures in the last few years and the full year effect of the Shenandoah acquisition of 1979. The depletion rate per equivalent barrel increased to \$1.95 from \$1.69. General and administrative expenses are up due to higher management fees paid to Norcen Energy Resources Limited under the terms of the management contract. Interest expense decreased by 15% as a result of lower short-term borrowings which was partially offset by higher average interest rates.

Income taxes decreased as explained in detail in Note 3 to the Financial Statements.

1979 Compared to 1978

Total revenue increased 43% over 1978. An increase in oil and gas revenues was offset by a reduction in interest income. The increase in oil and gas revenues reflects substantial increases in production of oil and gas together with higher prices at the wellhead and lower royalty rates. The increase in oil production came primarily from the development of the West Pembina area while the gas production increase was attributable to new property interests acquired from the Shenandoah Oil Corporation early in 1979 in the Verger and Netook areas of Alberta and the Yoyo, Jeans-Fireweed and Inga areas of British Columbia. The price of crude oil increased by \$1.00 a barrel on July 1, 1979 and natural gas prices increased proportionately. Gas royalty rates decreased with the addition of the new property interests mentioned above.

Interest income was reduced by \$526,000 and interest expense increased due to the acquisition of the Shenandoah properties.

Production, depletion and depreciation expenses all increased due to the new properties from the acquisition. The depletion rate increased to \$1.69 per equivalent barrel from \$0.87 in 1978. Administrative expenses are up mainly on account of increased management fees paid to Norcen Energy Resources Limited under the terms of the management contract.

Current and deferred income taxes have declined in spite of increased earnings before income taxes due to higher income tax depletion and federal resource allowance deductions. An analysis of the effective tax rate is discussed in detail in Note 3 to the Financial Statements.

Balance Sheet

The total assets of the company have continued to grow to \$36.3 million from \$30.4 million in 1979 and \$22.9 million in 1978. This growth is attributable to the significant capital expenditures program amounting to \$7.5 million, \$13.4 million and \$7.1 million in the last three years.

Short-term Debt

Short-term debt outstanding has declined during the past year from \$4.1 million in 1979 to \$3.0 million in 1980. The 1979 short-term borrowings increased due to the additional financing required for the purchase of Shenandoah.

Financial Position

The funds position of the company increased \$.3 million in 1980 and decreased \$8.2 million in 1979 compared to a \$3.0 million decrease in 1978. While annual generation of funds from operations increased steadily over the period, the increase was more than offset by greatly increased annual capital expenditures.

SELECTED FINANCIAL DATA

FOR THE YEARS ENDED December 31

	<u>1980</u>		<u>1979</u>		<u>1978</u>		<u>1977</u>		<u>1976</u>	
Revenue (\$000)										
Oil sales	\$	1,520	\$	1,079	\$	529	\$	378	\$	312
Gas sales		4,463		3,616		2,191		1,370		1,050
Royalties		1,501		1,322		930		983		688
Interest & Other		<u>17</u>		<u>149</u>		<u>675</u>		<u>710</u>		<u>446</u>
		<u>7,501</u>		<u>6,166</u>		<u>4,325</u>		<u>3,441</u>		<u>2,496</u>
Expenses (\$000)										
Production	\$	785	\$	592	\$	421	\$	321	\$	201
Depletion		1,648		1,453		556		364		294
Depreciation		343		262		171		188		39
General and administrative		556		451		203		75		135
Interest		<u>334</u>		<u>395</u>		<u>13</u>		<u>—</u>		<u>—</u>
		<u>3,666</u>		<u>3,153</u>		<u>1,364</u>		<u>948</u>		<u>669</u>
Income before Income Taxes (\$000)	\$	3,835	\$	3,013	\$	2,961	\$	2,493	\$	1,827
Income Taxes (\$000)										
Current (recovery)	\$	(671)		(454)		(424)		232		147
Deferred		<u>1,356</u>		<u>1,220</u>		<u>1,226</u>		<u>509</u>		<u>434</u>
		<u>685</u>		<u>766</u>		<u>802</u>		<u>741</u>		<u>581</u>
Income before extraordinary item (\$000)		3,150		2,247		2,159		1,752		1,246
Extraordinary item		<u>—</u>		<u>—</u>		<u>—</u>		<u>—</u>		<u>4,294</u>
Net Income (\$000)	\$	<u>3,150</u>	\$	<u>2,247</u>	\$	<u>2,159</u>	\$	<u>1,752</u>	\$	<u>5,540</u>
Net Income Per Share										
Before extraordinary item		\$1.61		\$1.15		\$1.10		\$0.89		\$0.63
After extraordinary item		\$1.61		\$1.15		\$1.10		\$0.89		\$2.82
Cash Flow before extraordinary item (\$000)	\$	6,496	\$	5,183	\$	4,112	\$	2,700	\$	2,013
Expenditures (\$000)										
Exploration and property acquisitions	\$	5,815	\$	12,607	\$	6,047	\$	2,099	\$	1,282
Plant and equipment (net after sales)	\$	1,721	\$	767	\$	1,016	\$	1,061	\$	477
Shares issued and outstanding (i)		1,961,520		1,961,520		1,961,520		1,961,520		1,961,520
Total Assets (\$000)		\$36,257		\$30,351		\$22,943		\$19,435		\$17,550
Market Price Ranges of Shares (U.S.\$)	High	Low	High	Low	High	Low	High	Low	High	Low
American Stock Exchange 1st Quarter	30¼	15¼	17¾	13%	19%	13%	11½	8%	6	3½
2nd Quarter	25%	17½	22	15%	16%	12½	10%	8¼	8¼	4%
3rd Quarter	28%	22	21%	16%	17%	12¼	14%	8	7¼	6%
4th Quarter	27	14	26¼	18	17	10%	20%	13½	11%	6%

NOTE: Long-term obligations, redeemable preferred stock and dividends are not applicable for the disclosed periods.

(i) The number of shareholders of record on March 9, 1981 was approximately 1,300.

