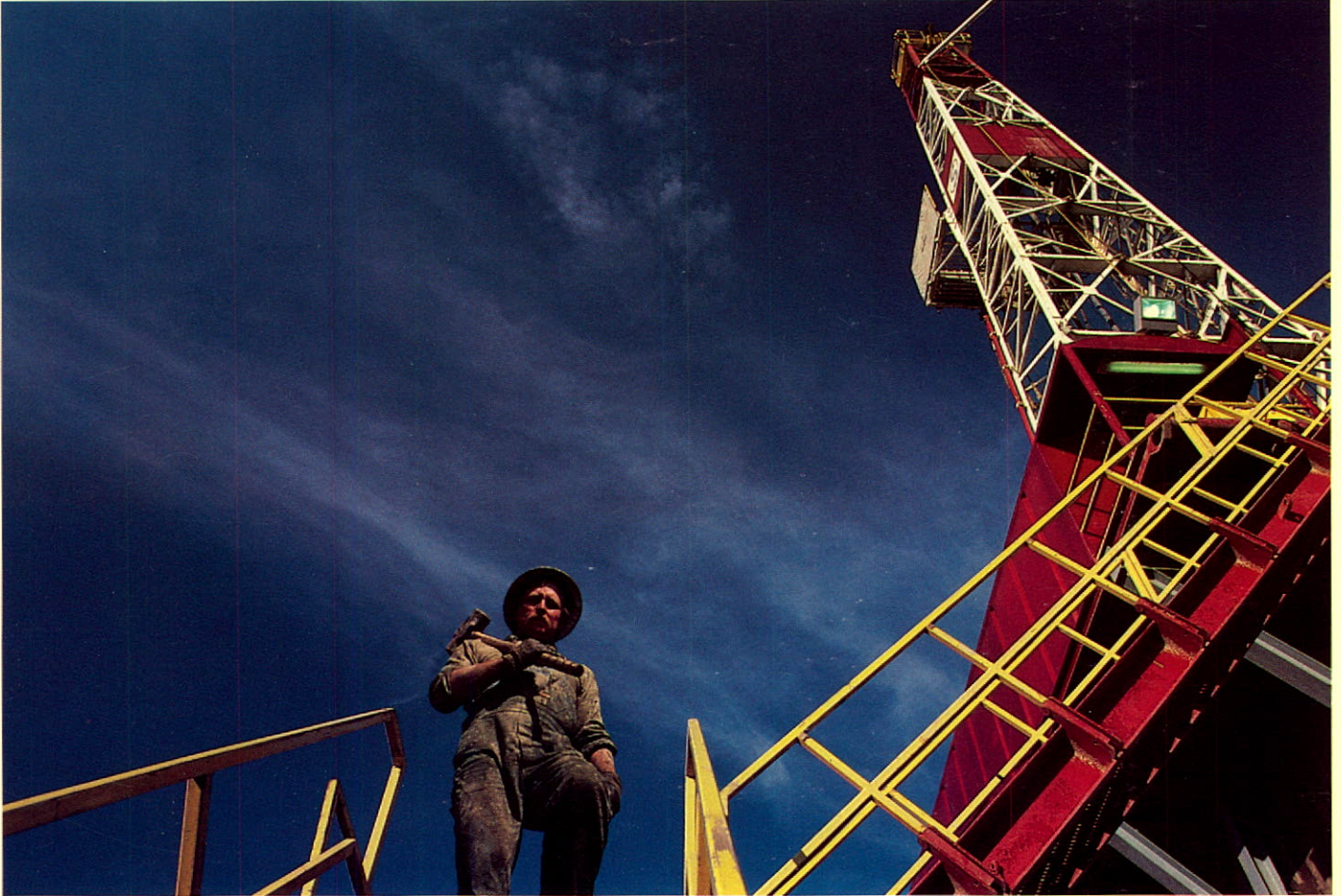


Norcen



Annual Report 1984

In 1984, Norcen achieved record financial performance.

Norcen Energy Resources is engaged in the exploration for and production of oil and natural gas in Canada, including Alberta, British Columbia, Saskatchewan, the Beaufort Sea and offshore East Coast, and the United States and Australia. Through subsidiaries and affiliates, Norcen also participates in significant iron ore operations in Labrador.

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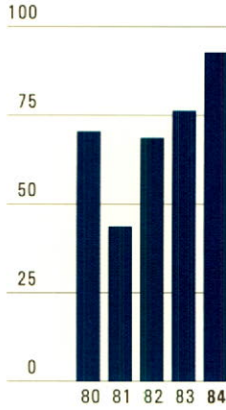
Cover:
Roughneck, Okie Dodai
Skinner, descends drilling
rig after a 12-hour shift.

Norcen's strategy of developing a variety of income streams continues to strengthen its operating and financial base. The Company has the flexibility to respond successfully to a challenging operating environment, both today and in the foreseeable future. As a result of its exceptionally strong financial position, Norcen is well poised for further growth.

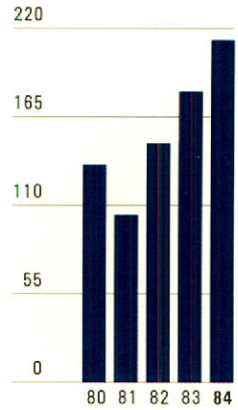
Highlights

Income applicable to ordinary shares (millions of dollars)

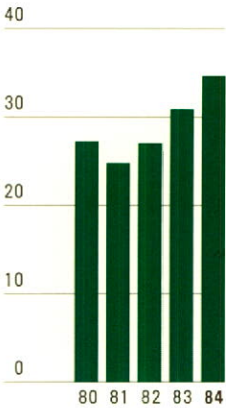
Income, funds from operations and production, reached an all time high.



Funds from operations (millions of dollars)

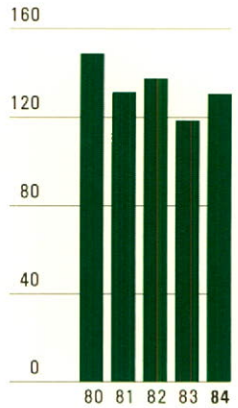


Crude oil and gas liquids production (thousands of barrels per day)



Natural gas production (millions of cubic feet per day)

Increased demand in Canada resulted in higher gas production.



Financial	1984	1983	% change
	(millions of dollars)		
Sales and other revenues	\$ 570.2	\$452.6	+ 26%
Funds from operations	\$ 214.5	\$ 181.9	+ 18%
Income applicable to ordinary shares	\$ 92.6	\$ 76.2	+ 22%
Capital expenditures	\$ 241.0	\$ 190.8	+ 26%
	(dollars)		
Per ordinary share			
Earnings	\$ 1.65	\$ 1.39	+ 19%
Dividends	\$ 0.50	\$ 0.50	
Market price			
High	\$ 20.00	\$20.50	
Low	\$ 13.63	\$ 14.06	
Close			
Voting	\$ 15.50	\$ 17.13	
Non-voting	\$ 14.00	\$ 16.13	
	(millions)		
Ordinary shares			
Average number outstanding	56.2	54.7	
Volume of trading	7.3	11.7	

Operating

Oil and gas production	(thousands of barrels per day)		
Oil and gas liquids	34.7	30.9	+ 12%
	(millions of cubic feet per day)		
Natural gas	130.7	119.3	+ 10%
Net wells drilled	126	137	
Oil and gas reserves	(millions of barrels)		
Oil and gas liquids	115.8	117.5	- 1%
	(billions of cubic feet)		
Natural gas	1,086.0	1,103.0	- 2%

1984 in review

Norcen achieved record financial results in 1984 due primarily to further increases in rates of production of oil and gas liquids coupled with moderately higher wellhead prices. Production of natural gas, which had been declining in recent years due to lower export demand, recorded an increase as the result of higher demand in Canada.

Norcen's propane marketing, industrial gas system, and oil pipeline operations continued to make an increasingly significant contribution to the oil and gas division's financial strength.

Exploration activity in Western Canada was maintained with the objective of replacing current production and augmenting established reserves. In Canada's frontier areas Norcen has fulfilled most of its farmin commitments and has established a land position broad enough to ensure participation in any further exploration successes. Exploration activity in the U.S. Gulf Coast states, commenced in mid-1983, and has resulted in immediate revenue gains.

High hopes for further exploration success off the northwest coast of Australia dimmed somewhat with the drilling of a number of dry holes earlier in the year, but were renewed in the fall with the drilling of a second oil discovery. Production from the first discovery is planned for early 1986.

The mineral resources division performed well, despite a difficult environment. Cost reductions and productivity improvements implemented by Iron Ore Company of Canada led to satisfactory financial results, while The Hanna Mining Company achieved a significant financial turnaround.

Early in 1985 Norcen sold its gas utilities operations in Ontario, Manitoba and Quebec for a favourable price. While the gas utilities had provided Norcen with a measure of financial stability in recent years, the potential investment opportunities are considered to be more attractive in the less regulated upstream segment of the natural resource sector.

Oil and gas perspective

Largely through exploration and development activity, Norcen has increased its production of oil and gas liquids from 24,900 barrels per day in 1981 to 34,700 barrels per day in 1984. Although looking forward to further production gains in 1985, repeating the performance of the past several years in Western Canada over the next three to four years represents a major challenge.

Future production gains will be expensive, as most of these will have to come from enhanced recovery of existing reserves of conventional and heavy crude oil and from new discoveries in the more remote areas of the western sedimentary basin.

Norcen's natural gas production has suffered from the same market-related problems experienced by virtually all producers in Western Canada. The federal government has now adopted a more market-sensitive approach to export pricing and this should allow increased gas production as export demand improves.



Two roughnecks stack drill pipe while a drill bit is being changed.

Norcen's natural gas production in 1984 averaged 130.7 million cubic feet per day; however, production capability is at least 50 per cent higher than this level.

**The changing environment:
Norcen strategy**

The oil and gas industry in Canada is facing a period of considerable change. It is likely that both crude oil and natural gas commodity prices will soon be deregulated, as governments step back and allow market forces to set prices and volumes.

At least for the next year or two, no significant increases in the prices of oil and natural gas can be expected. It seems likely that the costs of producing and replacing reserves will rise at a faster rate than prices. Given this environment, Norcen believes that it will be essential to have both operating and financial flexibility to take advantage of investment opportunities.

Operating flexibility will come from Norcen's exposure to major energy resource projects — whether in Western Canada, in Canada's frontiers or outside Canada. Financial flexibility comes from Norcen's strong balance sheet, secure and growing cash flow, and proven ability to raise new debt and equity capital.

Outlook

Since 1981, when Norcen's net income was dramatically cut by the effects of the National Energy Program, the Company has recovered steadily to reach this year's record financial performance. In that time, Norcen has invested \$ 1.3 billion to increase production levels in Western Canada, to diversify into the mineral resources sector and to increase both income from and exposure to investments outside Canada.

Given the current environment of commodity surpluses and rising costs, Norcen believes reductions in royalty and taxation levels are pre-requisites to further increases in investment levels in the domestic oil and gas sector. The federal and provincial governments are likely to take action in this regard in the near future. Norcen expects the result to be a transfer of both risk and reward to the industry.

The Company is well positioned to make the most of this new environment, with a strong balance sheet and profitable operating base. Participation in carefully selected exploration and development plays in Canada, in the United States and Australia will, in the future, allow Norcen to maintain and improve its income levels. However, to continue its record of strong growth through the next decade, Norcen must look to either a major resource project or some other significant investment.

On behalf of the Board

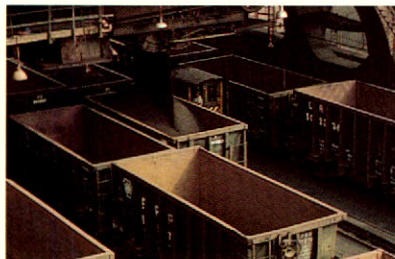


Conrad M. Black
Chairman

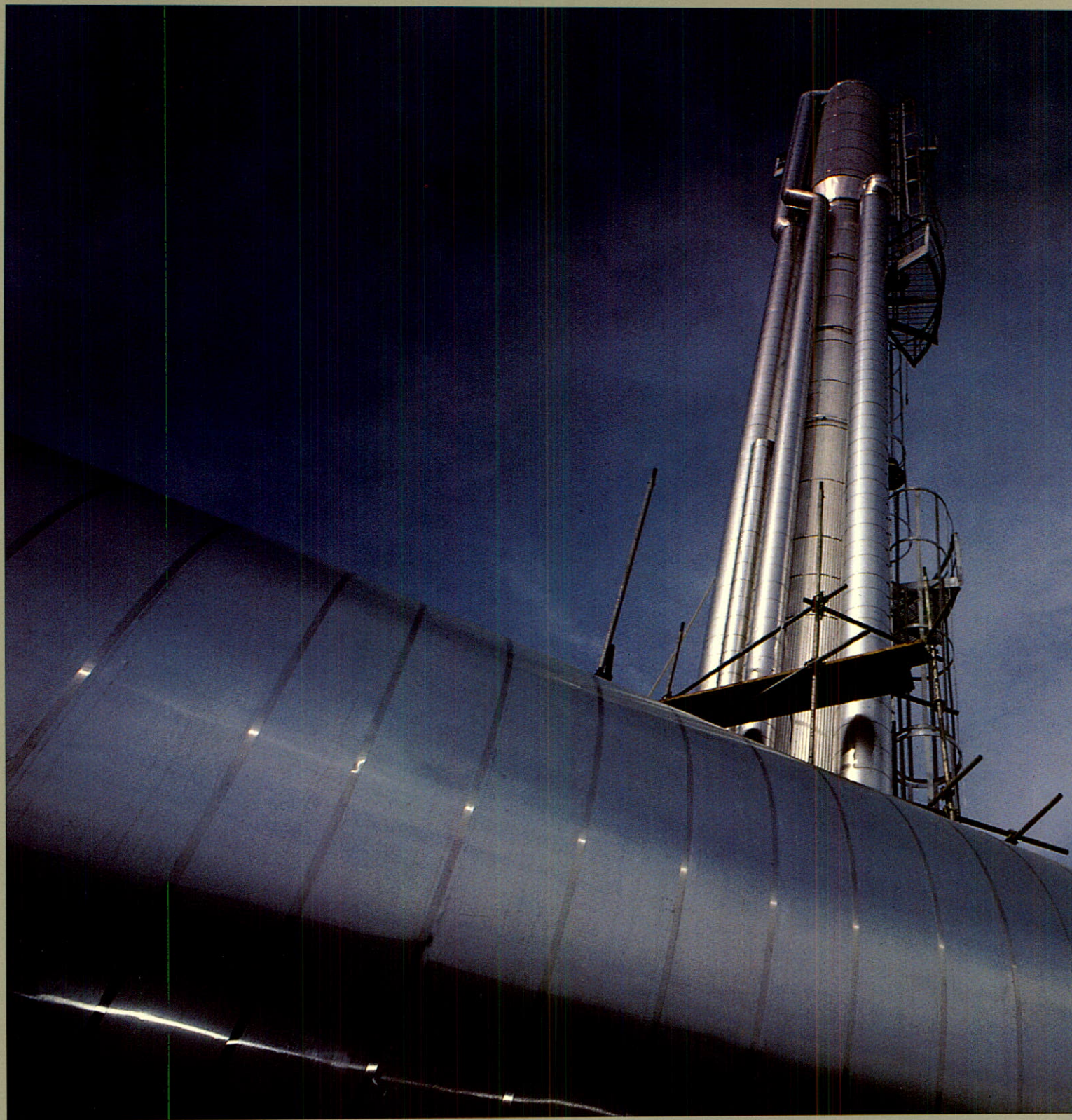


Edward G. Battle
President and
Chief Executive
Officer

February 19, 1985



At the Hanna dock in Cleveland, railroad cars are loaded with iron ore pellets for transportation to customers in the U.S.



Oil and gas

Record liquids production, improvements in natural gas production and moderate price increases, were responsible for 1984's performance.

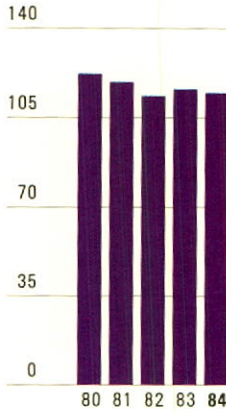


Norcen personnel supervise start up of the Company's new gas liquids extraction plant in Fort Saskatchewan.

Oil and gas liquids reserves

(millions of barrels)

Reserve additions nearly equalled current production.



Norcen's oil and gas operations in 1984 achieved all time high levels of revenue, cash flow and operating income. This strong performance was due mainly to record liquids production levels, moderately higher wellhead prices and effective control of operating costs.

A total of \$244 million was spent in 1984 on exploration and development activities in Western Canada, the Canadian frontier, the United States and Australia. These activities maintained established oil reserves at about the same levels as at the end of 1983, thereby all but replacing 1984 production volumes.

Exploration and development**Western Canada**

In 1984, capital expenditures for oil and gas activities in Western Canada, before receipt of petroleum incentive payments, were \$111.9 million, compared with \$109 million the year before. Of this amount, \$63.1 million was spent on conventional oil and gas exploration; \$37.3 million on maintaining production from existing oil and gas fields and developing reserves not previously connected to market and \$11.5 million on exploration and development in heavy oil areas. In 1985, capital expenditures in Western Canada, before receipt of petroleum incentive payments, are expected to be \$124.4 million.

The Western Canadian Sedimentary Basin is the prime focus of Norcen's oil and gas exploration and development. The Company is one of the largest acreage holders in the area and during 1984 approximately 95,000 net acres of new leases and licenses were acquired.

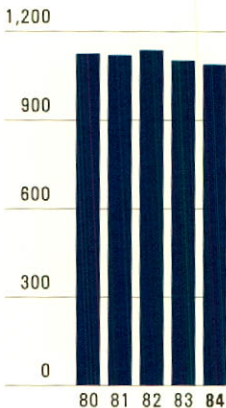
Oil

The year's drilling program concentrated on oil prospects. While exploration successes in recent years have been mainly discoveries of small to medium-sized pools, the aggregate additions to new production and reserves have been significant. At the same time, Norcen continues to look for exposure to high-risk, high-reward opportunities which, if successful, would have a major impact on the Company.

Natural gas reserves

(billions of cubic feet)

Natural gas reserves continue to reflect the lower priority given to natural gas exploration.



One of the main areas of activity is northern Alberta where Norcen had exploration successes at Gift, Spirit River, Gilwood/Triangle, Kitty and Ogston.

Gift: During 1984, Norcen participated in four oil discoveries. One of the discoveries, in which Norcen has a 50 per cent interest, is a five-year, royalty-free well producing 75 barrels per day. Norcen has a 75 per cent interest in a second discovery which is producing 100 barrels per day. The other two discoveries were completed late in 1984 and are undergoing production tests.

Spirit River: Norcen participated in the drilling of three oil wells, bringing the number of producing wells in which the Company has an interest, to eight. During 1985, the implementation of a waterflood project should more than double Norcen's share of production which is currently 225 barrels per day.

Gilwood/Triangle: Norcen's interest in this area varies between 50 and 55 per cent. In 1984 the Company drilled three oil discoveries currently producing a total of 250 barrels per day. Approximately 90 barrels per day are royalty-free for a five-year period. Further exploratory drilling is anticipated for 1985.

Kitty: In 1984, Norcen participated in a third Slave Point well bringing its share of production to 150 barrels per day. Two additional development wells are planned for 1985.

Ogston: Norcen successfully completed five Granite Wash oil wells in which it has a 50 per cent interest. The Company's share of production from these wells is 340 barrels per day. Further drilling is planned for the early part of 1985.

Norcen was also successful in developing oil production in areas of central Alberta and in Saskatchewan.

Harmattan: Norcen participated in drilling eight wells increasing the total number of Viking zone oil wells in which it has an interest to 26. Norcen's share of production from these wells is 425 barrels per day. Its interest in the wells varies from 26 to 67 per cent.

Wildmere: Norcen participated in nine development wells in which it has a 50 per cent interest. This activity added 95 barrels per day to Norcen's share of production and extended the Lloydminster sand heavy oil reservoir. In the same general area, an exploratory step-out well, in which Norcen has a 50 per cent interest, resulted in the discovery of oil in the same zone.

Tatagwa/Colgate: Norcen completed its development program with the drilling of three oil wells. Norcen's interests range from 72 to 100 per cent in 17 wells. Production is approximately 1,300 barrels per day.

Hearts Hill: Four wells were drilled in 1984 and two wells were drilled in early 1985 to develop the Bakken heavy oil discovery made in 1983. There are now 15 wells in the field where Norcen's interest is 50 per cent.

Gas

As a result of the continued weak demand for natural gas in 1984 and Norcen's production capability being considerably higher than present production levels, exploration activity for natural gas was conducted at a relatively low level.

However, there were two areas of activity.

McLeod River, west-central Alberta: Norcen participated in the drilling of a Cardium gas discovery. The well, in which Norcen has a 76.7 per cent interest, is capable of producing 2 million cubic feet per day and will be placed on production in early 1985.

Sikanni, northeastern British Columbia: The Company participated in a Mississippian gas discovery in which Norcen's interest is 20 per cent. The Company plans to drill a similar structure in the area in 1985.

Canadian frontier

Norcen views the Canada lands as having long term potential and in 1984 continued the strategy of increasing the breadth of its interests in both the Beaufort Sea and the East Coast offshore. Norcen is now nearing completion of farmin agreements which will provide the Company with interests ranging from 4.7 per cent to 18.0 per cent in nearly 2 million acres.

Liquid hydrocarbons production increased 12.3 per cent over 1983 to achieve record level of 34,690 barrels per day.

In Australia, the Jabiru discovery enters the development phase.

Another oil discovery was made offshore Australia at the Challis #1 well.

A gas liquids extraction facility was completed at Fort Saskatchewan, Alberta.

U.S. exploration programs successful on the Gulf Coast.

Maps legend

- Norcen land interests
- Location/Drilling
- ✦ Abandoned well
- Oil well
- Oil show
- ✦ Gas well
- ✦ Water disposal well
- Oil pool
- Gas pool
- Proposed oil pipeline
- Proposed gas pipeline
- Proposed battery and plant site

Offshore northwest Australia

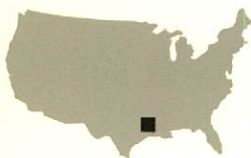
An encouraging discovery was made at the Challis #1 well which produced oil at rates up to 6,744 barrels per day during drill stem tests.



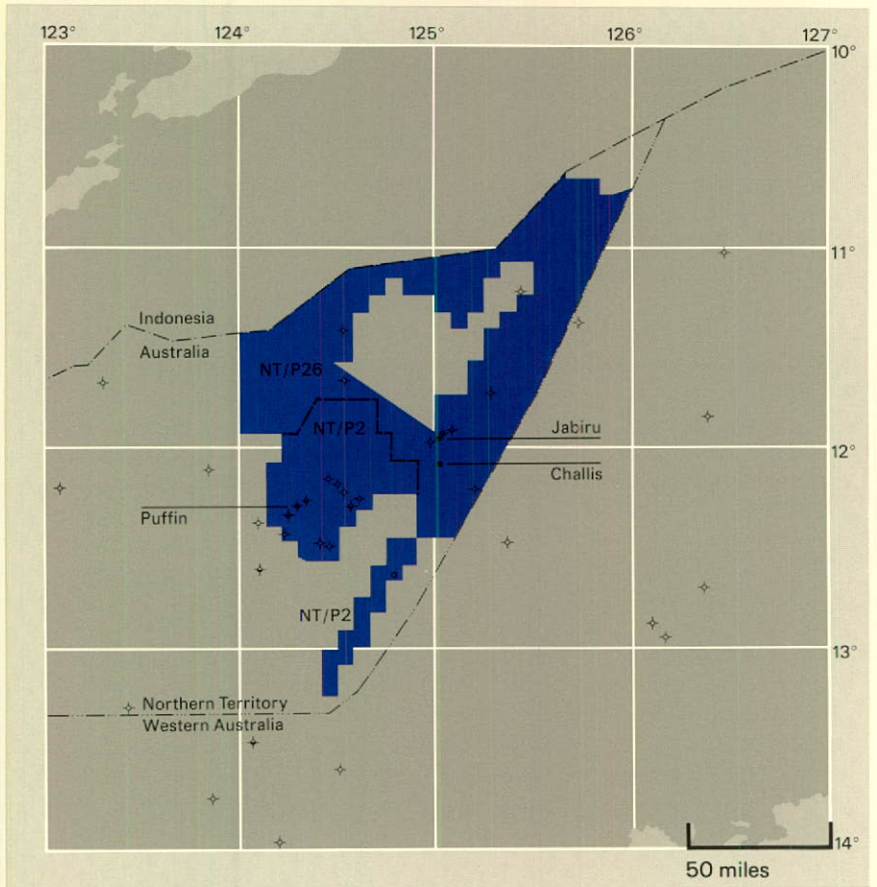
Australia

South Grand Bois

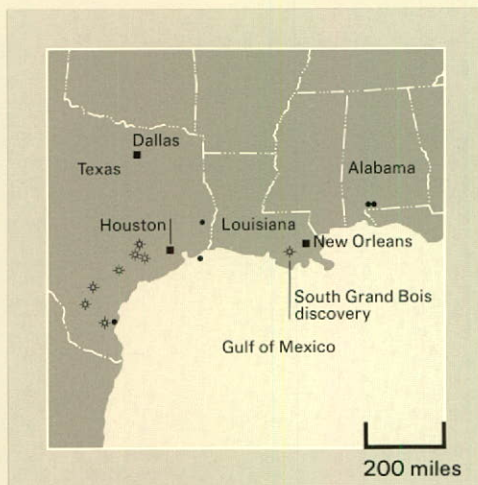
A significant natural gas/condensate discovery was placed on stream in January, 1985, at a rate of 10 million cubic feet per day plus 200 barrels per day of condensate. Further drilling is planned for this coming year to develop additional deliverability from this multi-zone producing feature.



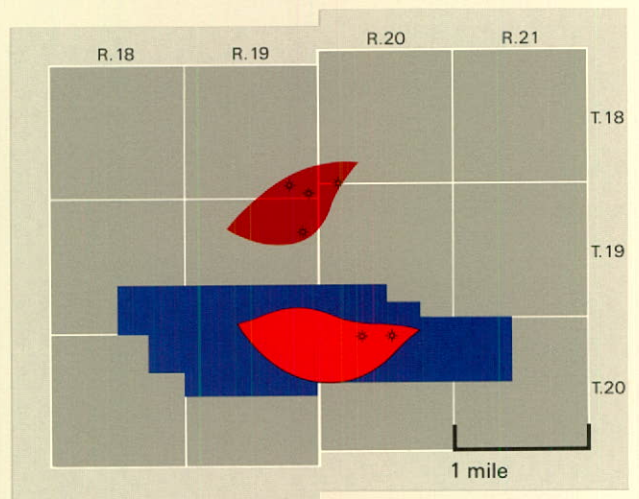
United States



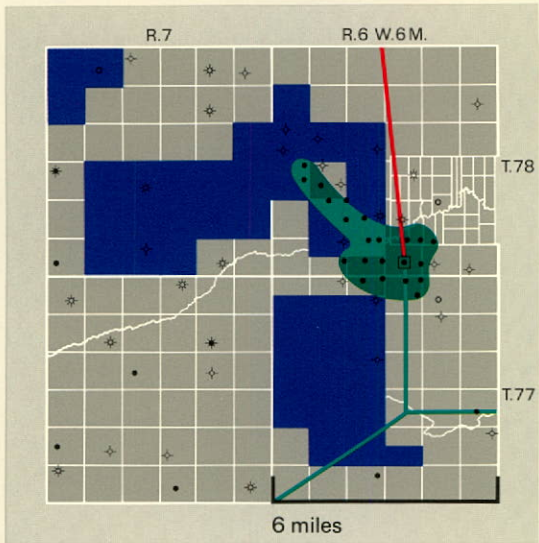
Offshore northwest Australia ▼



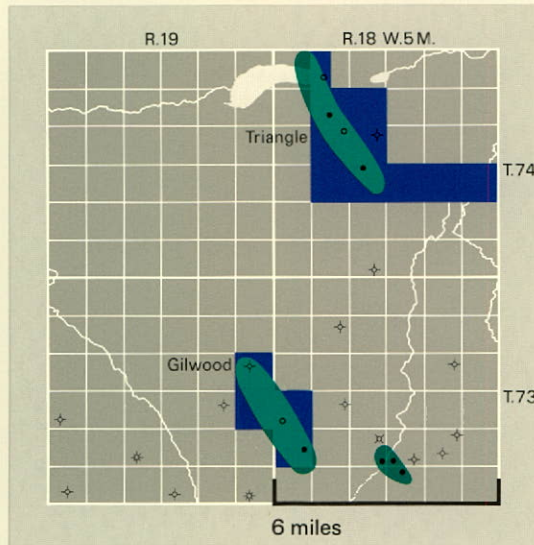
Discovery and development wells ■
Texas/Louisiana Gulf Coast



South Grand Bois discovery ■
Louisiana



Gift ■
Alberta



Gilwood/Triangle ▼
Alberta

Gift

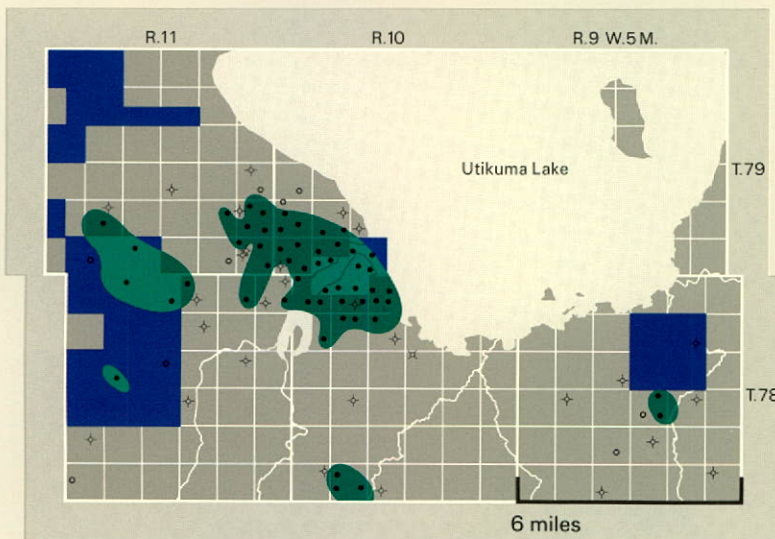
During 1984, Norcen participated in four oil discoveries. One of the discoveries, in which Norcen has a 50 per cent interest, is a five-year, royalty-free well producing 75 barrels per day.

Gilwood/Triangle

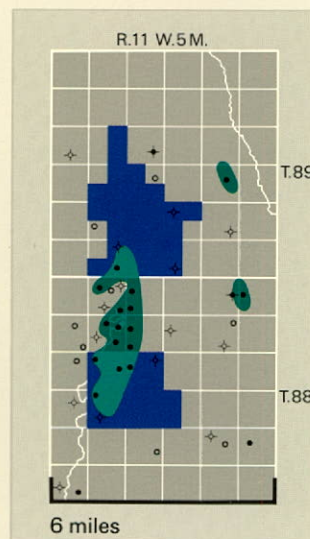
In 1984, the Company drilled three oil discoveries currently producing a total of 250 barrels per day.



Alberta



Spirit River ▲
Alberta



Ogston ●
Alberta

Spirit River

Norcen participated in the drilling of three oil wells bringing the number of producing wells in which the Company has an interest to eight.

Ogston

Norcen successfully completed five Granite Wash oil wells in which it has a 50 per cent interest. The Company's share of production from these wells is 340 barrels per day.



Monitoring operations at the new gas liquids extraction plant in Fort Saskatchewan.

Oil and gas

Storage tank at Norcen's heavy oil field in Bodo, Alberta.

Beaufort Sea

With the drilling of a fifth exploratory well in 1985, Norcen will have earned interests varying from 10.8 per cent to 18 per cent in 433,000 acres.

Norcen participated in the drilling of three wells: Pitsiulak, Amauligak and Akpak.

The Pitsiulak A-05 well, where Norcen's interest is 18 per cent, tested crude oil at an average rate of 1,913 barrels per day.

The Amauligak J-44 well, where Norcen's interest is 15 per cent, tested crude oil at a rate of 5,173 barrels per day and flowed gas at rates varying between 9.9 and 33.7 million cubic feet per day. Delineation drilling is scheduled for 1985.

The Akpak P-35 well, where Norcen's interest is 18 per cent, ceased drilling in November, 1984, and is scheduled for completion in 1985.

East Coast

In the Grand Banks area offshore Newfoundland, Norcen is participating in an exploration program involving seven commitment wells to earn interests varying from 4.6875 per cent to 9.375 per cent in 1.5 million acres.

The first well, Trave E-87, was abandoned in early 1984 after discovering small quantities of gas and condensate. The subsequent two wells, Voyager J-18 and Archer J-18, were also abandoned.

In late 1984, the Whiterose N-22 well was abandoned after testing 21.1 million cubic feet of gas per day and an uneconomic quantity of oil. The Conquest K-09 and Panther P-52 wells are currently drilling. The seventh well will be drilled in 1985.

Norcen also has the option to participate in up to seven additional wells to earn a 9.375 per cent interest in additional acreage. The first of these wells, North Ben Nevis P-93, commenced drilling in December, 1984.

Norcen is also earning a 12.5 per cent interest in nearly 4,800,000 acres on the Nova Scotia Slope, by paying 25 per cent of the costs of three wells. Also on the Scotia Slope, Norcen farmed out the drilling of the Albatross B-13 well to Petro-Canada.

International

Australia

Following a decision to commence production at Jabiru and exploration success at the Challis #1 well, Norcen announced plans to open an Australian office in 1985.

Plans are in progress to install a production system at Jabiru-1A, the discovery well drilled in 1983, and the first production from this well is expected to average 13,000 barrels per day during 1986.

The three delineation wells drilled on the Jabiru structure were abandoned as were three other wells also drilled in the area.

However, an encouraging discovery was made at Challis #1, located approximately 12 miles south of the Jabiru discovery. The Challis well produced oil at rates up to 6,744 barrels per day during drill stem tests.

Both Jabiru-1A and Challis #1 are located on a 3.7 million acre permit, NT/P26, in which Norcen has a 12.5 per cent interest. Norcen also has a 4.4 to 5 per cent interest in the adjacent 1.4 million acre permit, NT/P2. During 1985, seismic surveys will be carried out to be followed by further delineation and exploratory drilling.

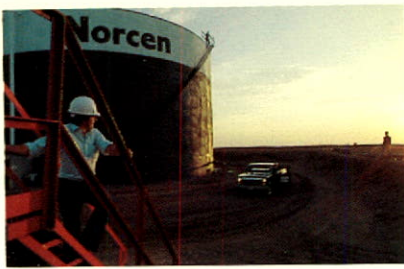
United States

During 1984 Norcen shifted the emphasis of its U.S. exploration from Denver to Houston. Through a Houston-based independent operator, activities will be concentrated in the Gulf Coast region.

The areas of principal interest and activity are:

Alabama: Norcen has a six per cent interest in 10,277 acres in Escambia County, which lies adjacent to the prolific Jay Field. To date, the Company has participated in four deep (15,500 feet) exploratory wells along this trend, resulting in two oil discoveries.

Louisiana: A significant natural gas/condensate discovery was made in LaFourche Parish, on the South Grand Bois prospect where Norcen has a 70 per cent



Oil and gas Cigas personnel convert a motor vehicle from gasoline to propane motor fuel at a Cigas conversion centre in Calgary, Alberta.



working interest in 1,370 acres of petroleum and natural gas leases. Production facilities have been installed and the discovery well and a delineation well were placed on stream in January, 1985, at a rate of 10 million cubic feet per day plus 200 barrels per day of condensate. Further drilling is planned for this coming year to develop additional deliverability from this multi-zone producing feature.

Texas: Norcen's drilling activity in 1983 and 1984 resulted in oil discoveries on the Neches River prospect in Jasper County, the Block 30/L prospect offshore Jefferson County and East Shamrock Cove. Gas discoveries have been made on seven prospects with the most significant being Mauricio, Duval County, and Shamrock Cove, Nueces County.

Wyoming: Oil was discovered in the Minnelusa formation on the Bitter Creek prospect in northern Wyoming. The discovery well is currently producing 200 barrels of oil per day. Three follow-up wells will be drilled in 1985.

Production

Liquid hydrocarbons

1984 was another record year for liquid hydrocarbons production. Average daily production, before royalties, of crude oil, synthetic crude, and gas liquids (which include natural gas liquids volumes extracted at Norcen's processing plants at Fort Saskatchewan and Empress) was 34,690 barrels, an increase of 12.3 per cent over 1983. Higher production from West Pembina, Colgate, Tatagwa, Spirit River, Harmattan East, Taber North, and Gift, more than offset the decline in production from Norcen's older fields.

In West Pembina, as a result of changing the Nisku 'C' pool from a waterflood to a miscible enhanced recovery project, Norcen was able to increase production by 500 barrels per day, to 2,450 barrels per day.

Norcen owns a 25 per cent undivided interest in a bituminous sands lease covering 4,522 acres near Fort McMurray, Alberta. Revenue is derived from a royalty on the sales of synthetic crude oil processed from the mineable sands on the lease. In 1984, total plant production

averaged 46,450 barrels per day, compared with 47,400 barrels per day in 1983.

In January, 1985, the Alberta Court of Queen's Bench ruled against the Company with respect to its lawsuit against Suncor Inc., concerning Norcen's entitlement to royalties on certain revenues. The decision is being appealed. After payment of federal production taxes and giving effect to the court's decision, revenues were \$24.3 million compared with \$22.8 million the previous year.

Norcen's heavy oil production rose 420 barrels per day to reach 3,170 barrels per day – a 15 per cent increase over the previous year. The removal of well rate restrictions by the Alberta government has led to more efficient production practices.

The Company has entered into an agreement with the Alberta Oil Sands Technology and Research Authority to launch a second enhanced oil recovery project – an experimental steam injection facility scheduled for completion at Bodo, Alberta, by the end of 1985.

During 1984, a new gas liquids extraction plant went into operation at Fort Saskatchewan, Alberta. Norcen has a 100 per cent interest in the plant, which is designed to recover 1,500 barrels per day of natural gas liquids from a gas throughput of 30 million cubic feet per day. The natural gas liquids are sold under contract to a major oil producer for use in miscible flood projects.

Natural gas

Gas production, before royalties, averaged 130.7 million cubic feet per day compared with 119.3 million cubic feet in 1983.

Norcen experienced an overall increase in natural gas sales in 1984 due primarily to spot market sales in Alberta. The average wellhead price received was \$2.79 per thousand cubic feet compared with \$2.66 in 1983.

During 1984, the federal government announced a new policy allowing exporters of natural gas to negotiate contracts at competitive prices with their customers. This is expected to enable Canadian natural gas to be more competitive in the export market.

Construction of gas pipeline to tie-in gas from the Cherhill area, Alberta, to the Fort Saskatchewan gas liquids extraction plant.



Oil and gas

Oil and gas land holdings

December 31, 1984

	Leases		Permits, licences and exploration agreements		Total	
	Gross	Net	Gross	Net	Gross	Net
	(thousands of acres)					
Canada						
Alberta	4,562	1,687	370	225	4,932	1,912
British Columbia	1,098	226	8	2	1,106	228
Saskatchewan	234	116	13	8	247	124
Manitoba	96	38			96	38
Ontario	3	1			3	1
Canadian frontier						
Arctic			3,592	313	3,592	313
Beaufort Sea			2,051	236	2,051	236
Yukon			1,620	648	1,620	648
Northwest Territories			898	93	898	93
Offshore East Coast			7,501	726	7,501	726
Total Canada	5,993	2,068	16,053	2,251	22,046	4,319
International						
United States	836	219			836	219
Australia			5,065	527	5,065	527
Total	6,829	2,287	21,118	2,778	27,947	5,065

In addition to the above, overriding royalty interests are held in 1.9 million gross acres and net carried interests in 177,243 gross (10,854 net) acres.

1984 Drilling statistics

	Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Western Canada								
Exploration								
Conventional	46	15.2	21	4.8	77	31.4	144	51.4
Heavy oil	11	6.0			16	10.0	27	16.0
	57	21.2	21	4.8	93	41.4	171	67.4
Development								
Conventional	71	19.4	11	4.6	11	4.6	93	28.6
Heavy oil	18	9.3			4	1.5	22	10.8
	89	28.7	11	4.6	15	6.1	115	39.4
Total Western Canada	146	49.9	32	9.4	108	47.5	286	106.8
Canadian frontier	2	.3			5	.7	7	1.0
Total Canada	148	50.2	32	9.4	113	48.2	293	107.8
International								
United States	13	2.5	9	3.0	42	11.6	64	17.1
Australia	1	.1			5	.5	6	.6
Total international	14	2.6	9	3.0	47	12.1	70	17.7
Total	162	52.8	41	12.4	160	60.3	363	125.5



Liquid hydrocarbons production

(barrels per day before royalties)	1984	1983
Alberta		
West Pembina	6,325	5,786
Pembina	2,534	2,656
Countess-Lathom	2,340	2,361
Harmattan	2,051	1,401
Provost-Bodo	1,312	1,043
Golden	1,280	1,208
Lloydminster	1,122	1,212
Joarcam	732	730
Bigoray	575	543
Evi	510	560
Others	7,348	6,071
Synthetic crude	2,903	2,961
Processing liquids	907	370
	29,939	26,902
Saskatchewan		
Tatagwa	694	447
Colgate	566	122
Weyburn	352	358
Royalty interest	497	483
Others	905	795
	3,014	2,205
British Columbia		
Eagle	1,158	1,195
Peejay	228	213
Others	212	235
	1,598	1,643
U.S.A.		
	139	130
Total	34,690	30,880

Natural gas production

(millions of cubic feet per day before royalties)	1984	1983
Alberta		
Harmattan	17.7	13.3
Minnehik-Buck Lake	10.5	12.2
Cherhill (Majeau Lake)	8.1	5.6
Boyer	6.7	6.5
Crossfield	5.6	5.6
Westlock	5.5	9.7
Ghost Pine	4.4	3.1
Verger	3.8	3.0
Bruce	2.6	2.4
Big Bend	2.5	1.9
Alexander	2.5	1.6
Others	52.4	47.1
	122.3	112.0
British Columbia		
Jedney-Bubbles-East Laprise	1.2	3.4
Royalty interest	2.4	
Others	4.1	3.3
	7.7	6.7
U.S.A.		
	0.7	0.6
Total	130.7	119.3

Reserves

Estimated reserves, before royalties, of crude oil, synthetic crude, and gas liquids, were 115.8 million barrels as of December 31, 1984, compared with 117.5 million barrels a year earlier. Estimated reserves of natural gas before royalties, were 1,086 billion cubic feet compared with 1,103 billion cubic feet at the end of 1983. These figures do not include Norcen's share of reserves of crude oil and natural gas in the Arctic, the Beaufort Sea, and oil sands reserves at Cold Lake, Alberta.

LPG marketing

Cigas Products Ltd., a wholly-owned subsidiary, is the second largest marketer of propane and butane in Western Canada and the third largest in all of Canada. Sales in 1984 were 65 million gallons compared with 60 million gallons in 1983.

Cigas is continuing to shift its marketing focus from home heating to motor fuel applications for propane. Motor fuel sales jumped 46 per cent during 1984 and now represent a major portion of Cigas' volumes. Approximately 2,500 motor vehicles were converted from gasoline to propane at Cigas' facilities in 1984.

Industrial gas system

Norcen owns and operates approximately 221 miles of pipeline and two processing plants serving industrial customers in the Edmonton area. Average daily throughput of the industrial gas system in 1984 was 45.9 million cubic feet per day, compared with 45.6 million cubic feet per day the year before.

Oil transmission systems

An average of 84,600 barrels per day was transported through the Company's oil gathering and transmission systems compared with 81,200 barrels per day in 1983. Norcen owns and operates the systems which total approximately 630 miles in length and are located in the four western provinces.



Mineral resources

Important gains were made in 1984 with IOC's enhanced competitive position and Hanna's improved results.

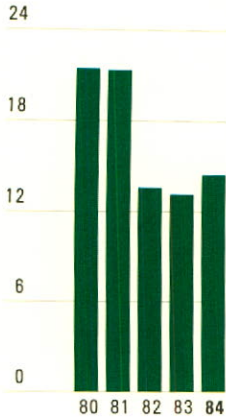


Iron ore pellets from Iron Ore Company of Canada are unloaded in Cleveland for transportation by rail to U.S. customers.

Iron ore sales by IOC

(millions of tonnes)

Iron ore sales began to recover due to an increase in demand.



Norcen acquired the principal assets of its mineral resources division in July, 1983. In 1984, Norcen's interest in The Hanna Mining Company was increased from 20 to 28 per cent. The other principal assets include a royalty interest on iron ore produced by Iron Ore Company of Canada (IOC); a 10.47 per cent equity interest in IOC; and royalties on gold ore mined and milled by Pamour Porcupine Mines Limited.

Iron ore

IOC is the largest producer of iron ore in Canada, with mines, a concentrator and a pelletizing plant at Labrador City. The ore, in concentrate and pellet form, is transported by rail to Sept-Iles, Quebec, where IOC owns and operates storage and dock loading facilities.

The ore reserves are well-defined and expected to last for more than 30 years providing Norcen with a source of long term royalty income.

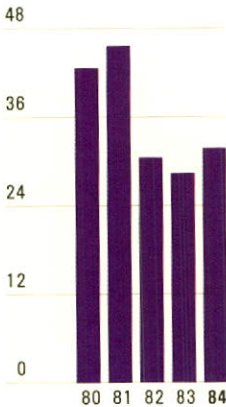
During 1984, IOC mined 29.7 million tonnes of crude ore compared with 26.9 million tonnes in 1983. It sold 6.8 million tonnes of pellets, up from 6.3 million tonnes the year before, 6.0 million tonnes of concentrate compared with 5.6 million tonnes in 1983, and 1.5 million tonnes of direct shipping ore compared with 1.2 million tonnes in 1983. Destinations included steel customers in North America, Europe and Asia.

The world steel industry continued its slow recovery in 1984 although production levels in the United States, IOC's most important market, slumped back to 1983 levels in the last half of the year. Several factors, including competition from alternatives to steel and iron, and continuing competition from imports of finished and

Iron ore royalties

(millions of dollars)

The increase in royalty income reflects the improvement in sales tonnage as well as higher prices due to a favourable exchange rate.



semi-finished steel products have had a negative impact on North American steel producers.

The world iron ore market is highly competitive, with ores from Brazil and Australia meeting much of the demand for ore outside of North America. Despite rising prices for materials and labour, IOC was able to reduce its unit production costs for 1984 below those of 1983. In 1984, the Company renewed its labour contracts for a three-year period.

IOC is a large consumer of heavy fuel oil and during the year it began implementing programs to introduce coal as a substitute fuel. In order to further control costs this program will become more extensive in 1985.

Because of its ability to control costs, IOC is able to compete internationally. Beginning in 1983 and continuing throughout 1984, IOC sold pellets to purchasers in Europe at prices based on international market prices which are lower than the Lake Erie price. The Company is forecasting these sales will increase in 1985 to allow greater production efficiencies at the mines. The contracts for sales of concentrates in Europe ended in 1984 and limited sales are expected to continue on a year-to-year basis. Contracts with buyers in Japan extend to March, 1988. Stockpiles of direct shipping ore will be sufficient for at least the coming year.

The outlook for the coming year is for continued improvement in production levels and a steady financial performance.

Gold mining

Norcen receives a royalty on ore mined by Pamour Porcupine Mines Limited from two gold properties in the Timmins district of Ontario. Royalty income for 1984 was approximately \$1.1 million, down from \$1.7 million in 1983 due to the lower price of gold and an adjustment in the royalty formula. The tonnage mined in 1984 was similar to that of 1983 at 526,000 tons, despite production being suspended from the underground workings at one of the mines due to the falling price of gold.

Exploration

In 1984, mineral exploration programs for precious metals were carried out in Newfoundland, British Columbia, Ontario and Nevada. Expenditures during the year were \$2.6 million, compared with \$2.2 million in 1983.

The Hanna Mining Company

Norcen increased its ownership of Hanna from 20 to 28 per cent in accordance with its policy of diversifying its interests geographically. Hanna is a natural resource company involved in the mining and processing of ferrous and non-ferrous minerals, coal mining, oil well servicing, contract drilling, and it is a partner with Norcen in certain oil and gas exploration and development projects.

Hanna's performance during 1984 returned to profitability as conditions in certain of its key areas of activity – metals and coal – began to show marked improvement. The company's earnings for 1984 were \$7.7 million compared with a net loss in 1983 of \$28.8 million.

IOC achieved increases in production, earnings and cash flow.

The Hanna Mining Company's performance returned to profitability.

Norcen increased its equity interest in Hanna from 20 to 28 per cent.

The Lake Wabush, owned and managed by Hanna Mining, transports iron ore through the Welland Canal.



Mineral resources

Hanna is the manager and largest single shareholder of IOC with a 26.8 per cent interest. As described in more detail above, IOC increased its ore production, earnings and cash flow in 1984 as compared with the year before.

Hanna's oil and gas interests include a joint venture exploration interest with Norcen in the U.S. Gulf Coast area (see section in oil and gas division); a 50 per cent interest in WellTech Inc., a large company which provides well servicing to the oil and gas industry; and a majority ownership in Midland Southwest Corporation which owns and operates contract drilling rigs.

Hanna's wholly-owned operations include nickel production—the company is the only integrated nickel producer in the United States—and at the beginning of 1984, its facilities in Washington, which produce ferrosilicon and silicon metal, re-opened after an eighteen-month shut-down.

Hanna also has major ownership interests in coal mining in the Appalachian region and in Colorado. As in 1983, the strong performance of the western operations was offset by the weak demand and low prices still affecting its eastern mines.

Hanna owns a one-third interest in MBR, the largest privately owned iron ore producer in Brazil. During 1984, MBR produced and sold 14.6 million tons of high grade ore for shipment to customers in Asia and Latin America.

In August, 1984, Hanna completed the sale of its 20.5 per cent minority interest in Alcoa Aluminio, a Brazilian integrated

aluminum producer, for U.S. \$55 million. Hanna received U.S. \$35 million of this amount in the first half of 1984, with payments of U.S. \$5 million a year to be made over the next four years.

Coal

Construction of the Obed Marsh thermal coal project near Hinton, Alberta, proceeded throughout 1984 and initial deliveries of coal commenced in August. The project currently has sales contracts with utilities in Europe and Japan. Norcen holds an approximate seven per cent participating interest in the project.

The plant at Coleman Collieries Limited was officially closed in 1984 as a result of its unfavourable mining economics and the soft world demand for thermal coal. All disposable assets are being sold.

Gas utilities

Effective September 30, 1984, Norcen sold its wholly-owned subsidiary, Northern and Central Gas, to Inter-City Gas Corporation of Winnipeg for a total consideration of \$240 million. This consisted of \$163 million in cash and \$77 million in eight per cent first preference shares of Inter-City Gas.

The sale marked the final stage in Norcen's evolution from a gas utility with resource interests into a major Canadian resource company.

Northern and Central operates natural gas distribution systems in Ontario and Quebec, as well as in Manitoba through its 99 per cent owned subsidiary, Greater Winnipeg Gas Company. As of December 31, 1984, these operations provided service to approximately 300,000 customers.

1984 performance

For the nine months ended September 30, 1984, the total sales volumes of the gas utilities division rose to 110.2 billion cubic feet, compared with 106.3 billion cubic feet for the same period in 1983. This represents an increase of 3.6 per cent. Up until the end of September, 1984, 8,707 new customers had been attached compared with 6,662 during the same period the year before. Net income for the first nine months of 1984 was \$17.8 million up from \$15.4 million the year before.

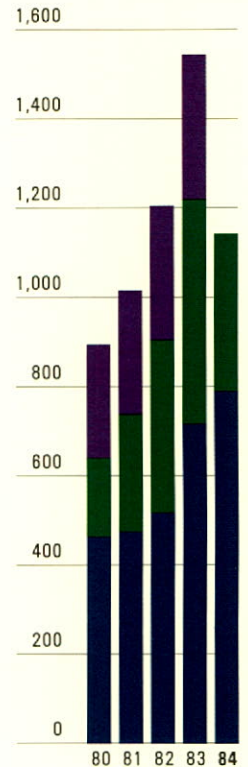
Utilities sale

As a result of the sale of its gas utilities, which was completed on January 25, 1985, Norcen emerges in an exceptionally strong financial position. The sale removed \$322.5 million in long term debt associated with the utilities from Norcen's balance sheet and in addition, Norcen has used the \$163 million received in cash to further reduce debt. The Company is now well poised to pursue further investments in non-regulated areas.

The sale of its gas utilities division marks a watershed in Norcen's history. From its beginnings in the early 1950's, as a small Northern Ontario natural gas utility, Northern and Central Gas has played a central role in the development of Norcen as a major Canadian resource company. From its purchase of major oil and gas assets in 1965, through the corporate reorganization which created Norcen in 1975, up until the present time, Northern and Central Gas has provided a stable and reliable base from which to grow.

Norcen extends its thanks to the employees of Northern and Central and Greater Winnipeg Gas, together with its best wishes for their continued success throughout the coming years.

Debt and equity capital
(millions of dollars)



■ debt - utilities
■ debt - natural resources
■ equity

The debt to equity ratio improved substantially following the sale of the Gas utilities.

Social responsibility

Norcen contributed several bursaries and scholarships to colleges and universities in Newfoundland. One of the recipients, Ron Vitch (right) is being trained by his professor on the use of navigation instrumentation at the College of Fisheries and Navigation in St. John's.

A close encounter with a Triceratops at the Calgary Prehistoric Park—one of the many community projects supported by Norcen.

Following the closing of Coleman Collieries in Alberta, Norcen has undertaken an extensive reclamation program to restore the environment surrounding the mines. Shown here is the open pit mine at Tent Mountain which is now a man-made lake surrounded by rolling, grassy hills.

While Norcen believes that its most important contribution to Canada is the creation and enhancement of economic opportunities and employment, it recognizes it has additional social responsibilities, particularly to the communities in which it has business interests. The Company's community support and human resources programs are two ways in which it meets these obligations.

Human resources policies

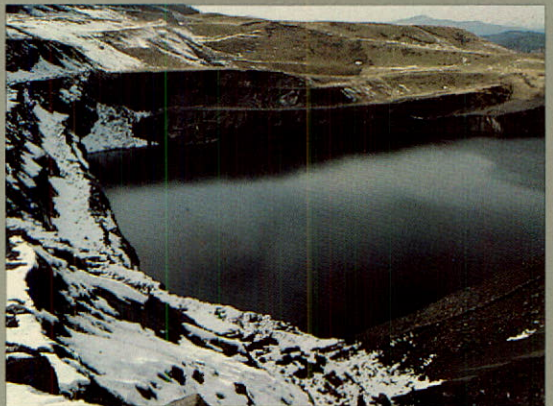
As with most major corporations, Norcen's human resources policies include equality of opportunity and equal pay for work of equal value. The Company emphasizes promotion from within and offers in-house training programs and financial support for job-related continuing education.

Community support programs

Norcen contributes financially to charitable organizations working in the areas of health, public education, welfare and the arts. Contributions are made in accordance with sound business practices, with priority given to organizations which meet an important community need and which demonstrate broad community support. In 1984, the Company gave support to 156 organizations across Canada.

Examples include the donation of equipment to monitor children with a predisposition for sudden infant death syndrome at the Charles A. Janeway Child Health Centre in Newfoundland; the donation of funds to the Provost Municipal Health Care Centre in Alberta for public instruction in cardio-pulmonary resuscitation; and sponsorship of the Young People's Series Concerts performed by the Calgary Philharmonic Orchestra.

Other ways in which Norcen seeks to practise good corporate citizenship include policies in respect of ethical business practices, local and regional procurement, environmental protection and co-operation with governments and the industry.



Management's financial analysis and discussion

Net income of \$104.3 million in 1984 was an all-time high, surpassing the previous high set prior to introduction of the National Energy Program ("NEP") in 1980. This achievement is due to significantly higher production volumes and productivity which more than overcame the high burden of NEP related taxation. Cash generated from operations also set a new high of \$214.5 million.

In January 1985 Norcen completed the sale, effective September 30, 1984, of its gas utilities division. Prior years' consolidated financial statements have been restated to account for this division by the equity method. The sale had virtually no effect on 1984 net income as the gain on sale offset the loss of fourth quarter gas utility earnings. While loss of the earnings of gas utilities will not be immediately offset by reduced financing costs and increased investment income, there will be no material impact on cash available to Norcen's continuing operations.

Also in January 1985 the Alberta Court of Queen's Bench ruled adversely to the Company in respect of its lawsuit against Suncor Inc. concerning Norcen's entitlement to royalties on certain revenues. Norcen intends to appeal the decision. All affected years have been restated to reflect this decision. The effect on each year's net income is set forth in Note 2 to the Consolidated Financial Statements. In the aggregate the effect of the decision was to reduce ordinary shareholders' equity by \$29.2 million. In the absence of reversal of the decision on appeal, the future impact of this decision is dependent on the difference, which is presently declining, between regulated Canadian oil prices and world oil prices. Federal and provincial governments are currently discussing the deregulation of crude oil prices.

Norcen's results of operations by business segment for the three years ended December 31, 1984 are set out in Note 11 to the Consolidated Financial Statements.

Revenues and expenses

Both the oil and gas and mineral resources divisions achieved record levels of revenue, up 26% in 1984 after an increase of 21% in 1983. Oil and gas revenues increased mainly because of record levels of liquids production and a somewhat higher demand for natural gas. Liquids and gas volumes in 1984 were up 12% and 10%, respectively, compared to 1983 and were up 28% and down 5%, respectively, from 1982. Prices continued their stabilizing trend noted in 1983 gaining 6% in the year. Mineral resources revenues reflect the first full year of income from the substantial assets acquired in mid-1983. Growth in royalty income reflected a 9% increase in volumes shipped by Iron Ore Company of Canada ("IOC") at slightly better prices than those obtained in 1983. This increased volume and lower costs allowed IOC to pay a total of \$10.5 million in dividends to the Company in 1984.

Production and operating costs grew at a 10% rate in 1984 compared to about 7% in 1983. It is estimated that about one half of this increase in 1984 reflects growth in the level of the Company's activities. Broadly based restraint in the economy and the concentrated effort by the Company to control costs and improve productivity have significantly mitigated the effect of inflation.

Production revenue taxes continued to grow as a direct function of increasing levels of revenue. Depreciation and depletion also continued to increase due to higher revenues and the higher costs of replacing reserves. Financial expense, which was up \$5.9 million in 1984 after an increase of \$3.5 million in 1983, reflects the full year effect of financing the mineral resources acquisition in mid-1983 offset by somewhat lower short-term rates in 1984.

Most troublesome to the Company is the substantial increase in income taxes. As a result of the fiscal regime introduced by the NEP which introduced non-deductible production revenue taxes and phased out tax depletion allowances, the Company's effective rate of income tax exceeded 64%

in 1984 compared to 51% in 1982. Current income and production revenue taxes totalled \$145.6 million, up from \$81.9 million in 1983 and \$48.1 million in 1982. Total income and production revenue taxes are now nearly 200% of income applicable to ordinary shareholders compared to approximately 129% in 1982.

Capital and other spending

Capital expenditures on oil and gas exploration and development before federal and provincial incentives increased to \$241.0 million from \$216.1 million and \$217.8 million in 1983 and 1982, respectively. The growth was accounted for by increased spending on activities in the United States and Australia. This geographic shift resulted in federal and provincial incentives growing marginally to \$85.7 million in 1984 from about \$84 million in each of 1983 and 1982.

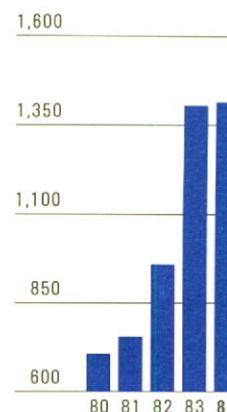
While there were no major acquisitions during the year, the Company increased its interest in The Hanna Mining Company from 20% to 28% at a cost of \$33.8 million and received \$77 million Inter-City Gas Corporation 8% first preference shares as part of the sale consideration for the gas utilities division. In 1983 Norcen acquired mineral resource assets at a cost of \$327.8 million.

Financing activities

Following two years of aggressive financing and acquisition activities during which the Company generated new external capital of over \$735 million, 1984 was a quiet year with no significant new issues. Internally generated funds and demand bank credits provided all funds for 1984 activities. Sale of the gas utilities division, which closed in January 1985, allowed the Company to pay down demand bank credits by \$163 million and also removed \$322.5 million of utility long-term debt from the Company's consolidated balance sheet. Giving effect to this transaction the equity to debt ratio improved to 2.2:1 compared to 0.9:1 reported at the end of 1983.

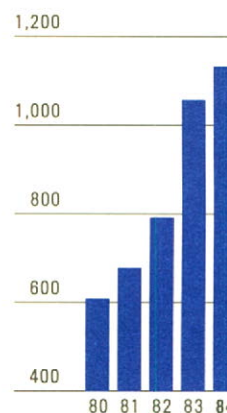
Total capitalization (millions of dollars)

Remained at approximately the same level as last year, but there was an increase in equity and a reduction of debt.



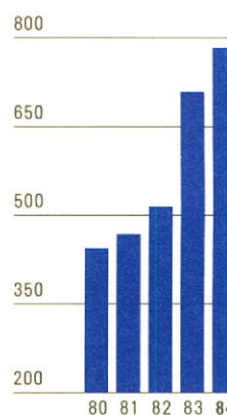
Properties, plant and equipment (millions of dollars)

Norcen continued its policy of reinvesting funds from operations for future growth.



Shareholders' equity (millions of dollars)

Equity continues to grow largely as a result of the increase in retained earnings.



Accounting policies

The Annual Report and the accompanying consolidated financial statements have been prepared by Management and approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and comply with United States disclosure requirements in all material respects. The principles used were those judged by Management to be the most appropriate in the circumstances.

Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the Annual Report, including the consolidated financial statements, and that all information contained in the Annual Report is consistent with the consolidated financial statements. The Company's auditors are responsible for auditing the consolidated financial statements and for giving an opinion on them. The Audit Committee of the Board of Directors is responsible for reviewing the annual consolidated financial statements and reporting thereon to the Board, making recommendations to the Board with respect to the appointment and remuneration of the Company's auditors, reviewing the scope of the audit and reviewing the Company's internal financial controls.

Basis of presentation

The consolidated financial statements include the accounts of Norcen and all of its subsidiaries. The companies' operations are organized into two classes of business, namely, oil and gas and mineral resources. Effective September 30, 1984, Norcen sold its gas utilities operations (Note 3).

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. Long-term liabilities, previously translated at rates

in effect at the dates the liabilities were incurred, are, effective January 1, 1984, translated at the rates of exchange prevailing at the balance sheet date. Any foreign exchange gains or losses arising on translation of long-term liabilities are deferred and amortized over the remaining term of the liabilities. Sales and other revenues and costs and expenses are translated at the average rate of exchange for the respective year. The resulting gains and losses are included in income. As a result of this change, at December 31, 1984, long-term debt has been increased by \$9,605,000, a foreign exchange loss has been deferred in the amount of \$7,347,000 and the difference of \$2,258,000 has been charged against income before income taxes. Translation of long-term debt repayable in foreign currencies at the rate of exchange prevailing at year end would have resulted in additional obligations of \$1,581,000 at December 31, 1983.

Properties, plant and equipment**Oil and gas**

Oil and gas properties, in accordance with the full cost method of accounting, include all expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted on the net production revenue method based on total estimated future production revenues from proven recoverable reserves. Proceeds on sale of non-producing properties are credited to asset costs.

Oil and gas production equipment and related facilities are depreciated over their estimated useful service life on the straight-line method at various rates, the application of which is equivalent to a composite rate of approximately 7.72% in 1984, (7.77% in 1983, 7.29% in 1982).

Mineral resources

Mineral resources properties are carried at cost. Exploration costs are written off in the year incurred. When a property is determined to be economic, all subsequent costs are deferred and amortized against related production.

Deferred gas revenues

Deferred gas production revenue 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, which are to be made over a ten year period, commenced November 1, 1984.

Pension plans and other benefits

The companies have a defined benefit pension plan covering most employees. Current costs are provided for, and funded, based upon actuarial estimates. There are no unfunded liabilities for past service pension benefits.

Earnings per ordinary share

Effective November 4, 1983, each common share was changed into one voting ordinary share and one non-voting ordinary share (Note 9(a)). This change has been applied retroactively to provide comparability of the consolidated financial statements.

Earnings per ordinary share have been calculated using the weighted monthly average number of ordinary shares outstanding during the year (56,205,000 in 1984, 54,683,000 in 1983, 53,242,000 in 1982). Fully diluted earnings per ordinary share assumes the exercise of all rights to acquire ordinary shares which have a dilutive effect.

**Consolidated statement
of income**

		(Restated)	
	1984	1983	1982
Sales and other revenues			
Oil and gas	\$519,537	\$429,826	\$368,985
Mineral resources	50,721	22,797	5,290
	570,258	452,623	374,275
Costs and expenses			
Gas purchases	54,044	47,284	41,429
Production, operations and administration	105,824	96,073	90,228
Production revenue taxes (Note 10)	60,023	49,467	40,481
Depreciation and depletion	78,538	62,183	44,935
Interest on long-term debt	50,616	42,008	23,590
Other financial expense	16,302	18,966	33,843
Income taxes (Note 10)	120,757	78,107	48,191
Minority interests in subsidiaries	1,651	1,633	1,570
	487,755	395,721	324,267
Income from continuing operations	82,503	56,902	50,008
Earnings of gas utilities (Note 3)	21,799	21,464	20,774
Net income	\$104,302	\$ 78,366	\$ 70,782
Dividends on preference shares	\$ 11,723	\$ 2,218	\$ 2,146
Income applicable to ordinary shares	\$ 92,579	\$ 76,148	\$ 68,636
Earnings per ordinary share			
Basic	\$ 1.65	\$ 1.39	\$ 1.29
Fully diluted	\$ 1.62	\$ 1.38	\$ 1.27


Consolidated balance sheet

		(Restated)
Assets	1984	1983
Current assets		
Cash	\$ 11,774	\$ 20,679
Accounts receivable	151,281	146,856
Receivable on sale of gas utilities (Note 3)	163,000	
Inventory	6,801	7,382
Total current assets	332,856	174,917
Investment in gas utilities (Note 3)		211,780
Investments (Note 5)	368,815	255,709
Properties, plant and equipment (Note 6)	1,125,112	1,048,062
Other assets	23,129	12,269
	\$1,849,912	\$1,702,737
Liabilities		
Current liabilities		
Demand bank credits (Note 7)	\$ 180,111	\$ 96,304
Accounts payable and accrued charges	111,878	110,679
Income and other taxes	87,960	37,752
Current maturities on long-term debt	8,594	8,441
Total current liabilities	388,543	253,176
Long-term debt (Note 8)	335,074	457,633
Deferred gas revenues	52,246	46,062
Total liabilities	775,863	756,871
Deferred income taxes	273,571	220,810
Minority interests in subsidiaries	13,246	11,595
Shareholders' equity		
Capital stock (Note 9(a))		
Issued		
First preference shares		
860 \$1.06 cumulative redeemable series A (910 in 1983)	22	23
61,724 \$1.50 cumulative redeemable series B (68,188 in 1983)	1,543	1,705
Junior preference shares		
85,817 non-cumulative convertible redeemable 1981 series	4,291	4,291
5,999,900 7¾% cumulative convertible redeemable 1983 series (6,000,000 in 1983)	147,178	147,180
113,300 non-cumulative convertible redeemable Series B	5,665	
Ordinary shares		
28,063,575 voting (28,012,335 in 1983)	136,841	136,380
28,274,898 non-voting (28,040,302 in 1983)	140,152	136,835
Retained earnings (Note 9(b))	351,540	287,047
Total shareholders' equity	787,232	713,461
	\$1,849,912	\$1,702,737

**Consolidated statement
of retained earnings**

	1984	1983	1982
Balance at beginning of year			
As previously reported	\$311,385	\$258,874	\$214,167
Prior period adjustment (Note 2)	(24,338)	(20,790)	(17,276)
As restated	287,047	238,084	196,891
Net income	104,302	78,366	70,782
	391,349	316,450	267,673
Dividends			
First preference shares			
series A	1	1	2
series B	97	116	144
Junior preference shares			
1979 series		1,132	2,000
1983 series	11,625	969	
Ordinary shares			
voting	14,018	13,583	13,303
non-voting	14,068	13,583	13,302
Cost of shares purchased for cancellation in excess of average issue price		19	838
	39,809	29,403	29,589
Balance at end of year	\$351,540	\$287,047	\$238,084

Approved by the Board:



Director



Director

Auditors' Report

To the Shareholders of
Norcen Energy Resources Limited

We have examined the consolidated balance sheet of Norcen Energy Resources Limited as at December 31, 1984 and 1983 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1984. Our examinations were 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 years in the three year period ended December 31, 1984 in accordance with generally accepted accounting principles applied on a consistent basis.



Chartered Accountants

Toronto, Canada
January 31, 1985

**Consolidated statement
of changes in financial position**

		(Restated)	
	1984	1983	1982
Cash internally generated			
Income from continuing operations	\$ 82,503	\$ 56,902	\$ 50,008
Add non-cash items:			
Depreciation and depletion	78,538	62,183	44,935
Deferred income taxes	35,147	45,639	40,620
Minority interests and other	4,416	(459)	934
Dividends from gas utilities	13,939	17,621	13,451
Cash generated from operations	214,543	181,886	149,948
Deferred gas revenues	6,184	5,598	20,006
Investments		49,693	
Decrease in working capital*	44,881		30,580
Total cash generated	265,608	237,177	200,534
Dividends paid	39,809	29,384	28,751
Net cash available	225,799	207,793	171,783
Cash invested			
Expenditures on properties, plant and equipment, net	155,350	106,532	161,720
Acquisition of mineral resource assets		320,398	
Investments	35,952		124,779
Other	4,323	3,140	4,500
Increase in working capital*		26,001	
	195,625	456,071	290,999
Excess (deficiency) of cash before external financing	30,174	(248,278)	(119,216)
External financing, net			
Demand bank credits	83,807	(95,185)	8,111
Long-term debt	(132,164)	209,706	120,090
Preference and ordinary shares	9,278	149,345	827
	(39,079)	263,866	129,028
Increase (decrease) in cash	\$ (8,905)	\$ 15,588	\$ 9,812

* Working capital excludes cash, demand bank credits and \$ 163 million cash received on January 25, 1985 from the sale of the gas utilities which was used to pay down demand bank credits.

Notes to consolidated financial statements

Note 1

Accounting policies

The information on pages 25 and 26 presents a summary of the principal accounting policies and is an integral part of these consolidated financial statements.

Note 2

Prior period adjustment

Norcen, through a wholly-owned subsidiary, receives royalty payments from Suncor Inc. ("Suncor") in respect of synthetic crude oil mined from an oil sands lease in which Norcen has a 25% royalty interest. In 1982 a dispute developed over the amount of the royalty payable to Norcen. Suncor took the position that the revenue upon which the royalty is calculated should not include petroleum compensation payments paid by the federal government and commenced proceedings in the Alberta courts seeking a declaration to that effect. Norcen in turn commenced an action against Suncor seeking recovery of unpaid royalties since July 1982 accrued in Norcen's accounts.

In 1983, Suncor filed a counterclaim seeking recovery of monies paid to Norcen from April 1979 to June 1982 which Suncor says were paid by inadvertence and mistake of fact.

On January 21, 1985 the Court of Queen's Bench of Alberta rendered a decision adverse to Norcen. Judgement for the Suncor counterclaim was allowed in the amount of \$26,166,000 and Norcen's claim for payment of accrued royalties in the amount of \$31,215,000 withheld by Suncor for the period July 1, 1982 to December 31, 1984 was dismissed. The consolidated financial statements have been

restated to reflect this decision. Net income has been reduced as follows:

Year ended December 31	Reduction in income (after income and other taxes)
1984	\$ 4,834
1983	3,548
1982	3,514
1981 and prior	17,276
Total	\$ 29,172

On January 23, 1985 Norcen announced its intention to appeal this decision.

Note 3

Sale of gas utilities

Norcen agreed, subject to obtaining necessary regulatory and other approvals, to sell to Inter-City Gas Corporation ("Inter-City Gas") and two of its subsidiaries, effective September 30, 1984, its entire holding of common shares of its wholly owned subsidiary, Northern and Central Gas Corporation Limited ("N&C"), for \$163 million cash and \$77 million of 8% first preference shares to be issued by Inter-City Gas. The sale, which closed on January 25, 1985, resulted in the disposal of Norcen's gas utilities operations in Ontario and Manitoba, as well as its holding of debt and securities of Gaz Métropolitain, inc., a former subsidiary.

The assets and operating results of Norcen have been restated to include its investment in N&C on an equity basis for all periods prior to October 1, 1984.

Condensed balance sheets of gas utilities operations as at the indicated dates are as follows:

	September 30 1984 (unaudited)	December 31 1983
Current assets	\$ 80,418	\$ 129,508
Investments	185,133	223,934
Property, plant and equipment	357,057	338,349
Other assets	44,972	13,323
	\$667,580	\$705,114
Due to Norcen	\$ 21,743	\$ 1,737
Other current liabilities	53,190	120,162
Long-term debt	322,462	316,479
Shareholders' equity	270,185	266,736
	\$667,580	\$705,114

Summarized operating results of gas utilities operations are as follows:

Year ended December 31	1984	1983	1982
Gross revenues	\$748,592	\$723,878	\$675,108
Costs and expenses	723,391	699,784	651,595
Income	\$ 25,201	\$ 24,094	\$ 23,513
Norcen's equity in earnings	\$ 21,799 (i)	\$ 21,464	\$ 20,774
Equity in earnings per ordinary share			
Basic	\$ 0.39	\$ 0.40	\$ 0.39
Fully diluted	\$ 0.34	\$ 0.38	\$ 0.37

(i) Includes the gain on sale of gas utilities operations of \$5,152,000 after deferred income taxes of \$17,522,000.

(Tabular amounts are
in thousands of dollars
except where noted)

Note 4

Acquisition of mineral resources assets

On July 28, 1983 Norcen acquired, through a series of transactions, substantially all of the natural resource and related assets of Hollinger Argus Limited ("Hollinger Argus") and Labrador Mining and Exploration Company Limited ("Labrador Mining") except its 36% interest in Norcen which was, in effect, transferred to a newly incorporated company, Labmin Resources Limited ("Labmin"). Prior to the acquisition by Norcen, all of the shareholders of Labrador Mining exchanged their common shares for an equal number of common shares of Labmin.

The principal assets acquired by Norcen were a 10.47% common share interest in Iron Ore Company of Canada ("IOC"), a royalty interest in lands being mined by IOC, a gold mining royalty and a note payable by Brascan Limited. The consideration paid by Norcen was cash of \$9,223,000 and the assumption of debt of Labrador Mining of

\$315,046,000. The purchase consideration was assigned as follows:

Working capital	\$ 8,025
Investments	118,966
Mineral resources properties	194,062
Other assets	6,741
	<u>327,794</u>
Deduct	
Deferred income taxes	3,525
Purchase consideration	<u>\$324,269</u>

In August 1983, Norcen sold its 800,000 common shares of Labmin for U.S. \$38.55 per share to Hollinger Argus in response to a tender offer to all shareholders of Labmin. At December 31, 1984 Hollinger Argus owned approximately 99% (85% in 1983) of the common shares of Labmin which owned approximately 34% (34% in 1983) of the ordinary shares of Norcen.

Note 5

Investments

December 31	1984	1983
(a) At Equity:		
Coleman Collieries Limited		
Shares	\$ 2,637	\$ 5,055
At Cost:		
The Hanna Mining Company ("Hanna")		
(quoted market 1984 - \$75,733,000; 1983 - \$52,380,000) (Note 5(b))		
Shares	146,511	112,736
Inter-City Gas Corporation		
(Note 3)		
Shares - preference(i)	77,000	
Brascan Limited		
Note	61,786	61,786
Iron Ore Company of Canada		
Shares	53,310	53,310
Northern and Central Gas Corporation Limited		
(Note 3)		
Shares - preference	8,530	9,777
Long-term notes receivable	10,294	4,754
Other investments	8,747	8,291
	<u>\$368,815</u>	<u>\$255,709</u>

(i) These shares cannot be sold without the consent of the issuer.

Dividend income received from investments carried at cost was \$13,009,000 in 1984 (\$4,126,000 in 1983; \$4,602,000 in 1982).

(b) Hanna

In June 1984, Norcen increased its share interest in Hanna from 20% to 28.15% by purchasing 1,151,609 common shares at U.S. \$23.00 per share. An agreement with Hanna entitles Norcen to nominate three directors to Hanna's board of directors

and, subject to certain exceptions, Norcen has agreed not to increase its common share interest in Hanna for an 8 year period ending in 1992. These exceptions include rights of Norcen to maintain its permitted percentage ownership and to respond to offers by others for Hanna shares under stated conditions.

(Tabular amounts are in thousands of dollars except where noted)

Note 6

Properties, plant and equipment

	Oil and gas (i)	Mineral resources	Total
December 31, 1984			
Cost	\$1,333,909	\$242,730	\$1,576,639
Accumulated depreciation and depletion	434,323	17,204	451,527
Net	\$ 899,586	\$225,526	\$1,125,112
December 31, 1983			
Cost	\$ 1,172,990	\$ 247,986	\$ 1,420,976
Accumulated depreciation and depletion	361,741	11,173	372,914
Net	\$ 811,249	\$ 236,813	\$ 1,048,062

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

Note 7

Demand bank credits

Norcen and its consolidated subsidiaries have the following obligations under established bank lines of

credit of \$195,750,000 at December 31, 1984 (\$220,000,000 at December 31, 1983):

	Average % rate of interest at December 31		December 31	
	1984	1983	1984	1983
Commercial paper	10.7	10.1	\$160,000	\$ 79,737
Bankers' acceptances	10.9	10.1	15,000	15,000
Bank loans — unsecured	11.3	11.2	5,111	1,567
			\$180,111	\$ 96,304
Unused lines of credit at period end			\$ 15,639	\$123,696

\$163 million cash received on January 25, 1985, from the sale of the gas utilities (Note 3) was used to pay down the above demand bank credits.

Note 8

Long-term debt

December 31	1984	1983
11¼% secured debentures, 1996	\$ 26,090	\$ 27,995
10¼% — 11¼% secured notes, 1988	33,660	35,033
12¾% — 13¼% debentures, 1993-2003	115,000	115,000
Term bank credits	121,440	240,336
7.6% subordinated note, 1999	47,300	47,300
Other	178	410
	343,668	466,074
Current maturities on long-term debt	8,594	8,441
	\$335,074	\$457,633

Lines of term bank credits, established with three Canadian banks, at December 31, 1984 amounted to U.S. \$62,000,000 which on maturity in 1986 may be extended at the borrower's option into a term loan with semi-annual principal repayments to retire the

loan in 1994, and \$39,600,000 maturing in 1986.

The average annual costs of indebtedness under these lines of term bank credits for 1984, 1983 and 1982 were 11.7%, 10.6% and 10.9%, respectively, and the amounts outstanding at December 31, were:

	1984	1983
Commercial paper		\$ 48,000
Bankers' acceptances		40,000
Eurodollar advances U.S.	\$ 92,000	120,000

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1985 are as follows:

1986 — \$57,195,000; 1987 — \$22,870,000; 1988 — \$24,542,000; 1989 — \$18,593,000.

(Tabular amounts are in thousands of dollars except per share amounts)

Note 9

Shareholders' equity

(a) Capital stock

The authorized capital stock of Norcen at December 31, 1984 consists of 1,300,000 first preference shares without par value issuable in series; unlimited second and junior preference shares without par value issuable in series and unlimited voting and non-voting ordinary shares without par value. The maximum consideration for the issuance of first preference shares is \$ 132,500,000.

Effective November 4, 1983, Norcen changed each outstanding common share into one voting ordinary share and one non-voting ordinary share, and cancelled any authorized but unissued common shares. The two classes of ordinary shares rank equally with each other and after all preference shares of Norcen with respect to priority on the payment of dividends. At the holder's option voting ordinary shares are convertible into non-voting ordinary shares, on a one-for-one basis, at any time. Non-voting ordinary shares are convertible into voting ordinary shares, on a one-for-one basis, only in certain limited circumstances.

First Preference Shares, Series A and Series B (redeemable at Norcen's option at \$27.50 and \$26.50 per share, respectively) have voting rights.

The Convertible Junior Preference Shares, 1981 Series were issued to senior executives pursuant to the terms of the Preference Share Incentive Plan, are non-voting, pay no dividend and each becomes convertible into approximately 1.66 voting ordinary shares and 1.66 non-voting ordinary shares at the rate of 25% of the issue after each of the first four years. The preference shares are automatically redeemed at \$50.00 per share after eight years or earlier in accordance with certain provisions of the plan.

The 7 $\frac{3}{4}$ % Convertible Junior Preference Shares, 1983 Series were issued on December 1, 1983. These shares are non-voting and each is convertible at the option of the holder at any time up to the close of business on December 1, 1990 into approximately 1.28 non-voting ordinary shares. Subject to certain restrictions, the Convertible Junior Preference Shares, 1983 Series will be redeemable on or after December 1, 1986 at Norcen's option in whole or in part at any time at a price of \$26.00, such price declining by \$0.25 per annum until December 1, 1990 after which they are redeemable at the issue price of \$25.00 per share.

The Convertible Junior Preference Shares, Series B were issued on February 8, 1984 to senior executives pursuant to the terms of the Preference Share Incentive Plan. The Convertible Junior Preference Shares, Series B are identical to the Convertible Junior Preference Shares, 1981 Series in all respects except that each becomes convertible into approximately 3.191 non-voting ordinary shares.

Changes in Norcen's ordinary and junior preference share capital during the three years ended December 31, 1984 are as follows:

	Ordinary Shares	
	Voting	
	Number of shares	Amount
December 31, 1981	26,507,143	\$ 116,423
Issued for cash		
Employee savings and investment plan	85,087	1,149
Incentive stock option plan	70,764	
Ordinary stock dividends	18,742	247
Redeemed		
Converted		
Preference shares	107,180	1,471
Purchased for cancellation	(51,465)	(226)
December 31, 1982	26,737,451	119,064
Issued for cash		
Preference shares		
Employee savings and investment plan	64,844	1,056
Incentive stock option plan	28,745	
Ordinary stock dividends	16,987	279
Redeemed		
Converted		
Preference shares	1,164,332	15,981
Purchased for cancellation	(24)	
December 31, 1983	28,012,335	136,380
Issued for cash		
Preference shares		
Employee savings and investment plan		
Incentive stock option plan	25,759	
Ordinary stock dividends	25,873	463
Exchanged	(392)	(2)
Converted		
Preference shares		
December 31, 1984	28,063,575	\$136,841

In addition, Norcen redeemed first preference shares during the three years ended December 31, 1984 as follows:

	Series A		Series B	
	Number of shares	Amount	Number of shares	Amount
1982	170	\$ 4	19,655	\$491
1983	525	13	14,036	351
1984	50	1	6,464	162

(Tabular amounts are
in thousands of dollars
except per share amounts)

Non-Voting		Junior Preference Shares							
		1979 Series		1981 Series		1983 Series		Series B	
Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
26,507,143	\$ 116,422	715,902	\$ 35,079	97,862	\$ 4,893				
85,087	1,149								
70,764									
18,742	248			(3,614)	(181)				
107,180	1,470	(60,021)	(2,941)						
(51,465)	(226)								
26,737,451	119,063	655,881	32,138	94,248	4,712				
						6,000,000	\$ 147,180		
92,811	1,511								
28,745									
16,987	280	(6,650)	(326)	(5,420)	(271)				
1,164,332	15,981	(649,231)	(31,812)	(3,011)	(150)				
(24)									
28,040,302	136,835			85,817	4,291	6,000,000	147,180		
								113,300	\$ 5,665
180,613	2,851								
25,759									
27,704	462								
392	2								
128	2					(100)	(2)		
28,274,898	\$140,152			85,817	\$4,291	5,999,900	\$147,178	113,300	\$5,665

Voting and non-voting ordinary shares may be issued as follows:

	Voting	Non-Voting
Conversion of junior preference shares	142,494	8,196,221
Incentive stock option plan, of which market growth options were outstanding at December 31, 1984 on:		
30,125 of each of the voting and non-voting ordinary shares at a combined exercise price of \$30.125 expiring in 1986; and		
105,000 non-voting ordinary shares at an exercise price of \$15.6875 expiring in 1988	30,125	135,125

(b) Dividend restrictions

Covenants respecting certain of Norcen's long-term debt impose a limit on dividend payments by Norcen, such limit being related in part to consolidated net income, as defined. Under the most restrictive of these covenants, retained earnings in the amount of \$161 million were available for the payment of dividends at December 31, 1984.

(Tabular amounts are
in thousands of dollars
except per share amounts)

Note 10

Taxes

In prior years, production revenue taxes were netted against sales and other revenues. In 1984, production revenue taxes were retroactively reclassified as a separate expense item in the consolidated statement of income. Production revenue taxes include petroleum and gas revenue tax and incremental oil revenue tax (\$54,051,000 in 1984; \$46,709,000 in 1983

and \$40,481,000 in 1982) and Newfoundland royalty tax on mineral resources (\$5,972,000 in 1984 and \$2,758,000 in 1983).

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

Year ended December 31	1984	1983	1982
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	\$ 33,345	\$ 39,239	\$ 38,754
Other items, net	1,802	6,400	1,866
	\$ 35,147	\$ 45,639	\$ 40,620

Deferred income taxes on the gain on sale of gas utilities were \$17,522,000 in 1984.

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, equity earnings, dividend income and minority interests for the following reasons:

Year ended December 31	1984	1983	1982
Income before income taxes and other items	\$187,988	\$130,919	\$94,479
Canadian federal statutory rate of income tax	46.0%	46.0%	46.0%
Computed income tax expense	\$ 86,474	\$ 60,223	\$ 43,460
Increase (decrease) in income taxes resulting from:			
Non-deductible production revenue taxes	24,863	21,486	18,621
Income tax depletion	(1,545)	(7,248)	(11,464)
Incremental exempt income	(828)	(2,468)	(7,001)
Provincial income taxes in excess of federal abatement	4,759	1,973	1,421
Non-deductible royalties, mineral taxes and other expenses, less federal resource allowance and provincial rebates and other	7,034	4,141	3,154
Actual income tax expense	\$120,757	\$ 78,107	\$ 48,191
Effective tax rate	64.2%	59.7%	51.0%

(Tabular amounts are
in thousands of dollars
except per share amounts)

Note 11

Financial data by business segment

Year ended December 31	1984	1983	1982
Oil and gas			
Sales and other revenues(i)	\$ 519,537	\$ 429,826	\$ 368,985
Operating costs	208,623	187,646	170,829
Depreciation and depletion	73,303	59,950	44,935
	281,926	247,596	215,764
Operating income	\$ 237,611	\$ 182,230	\$ 153,221
Mineral resources			
Sales and other revenues(i)	\$ 50,721	\$ 22,797	\$ 5,290
Operating costs	11,268	5,178	1,309
Depreciation and depletion	5,235	2,233	
	16,503	7,411	1,309
Operating income	\$ 34,218	\$ 15,386	\$ 3,981
Consolidated total			
Sales and other revenues(i)	\$ 570,258	\$ 452,623	\$ 374,275
Operating expenses	298,429	255,007	217,073
Operating income	271,829	197,616	157,202
Interest and other financial expense	66,918	60,974	57,433
Income taxes	120,757	78,107	48,191
Minority interests	1,651	1,633	1,570
	189,326	140,714	107,194
Income from continuing operations	82,503	56,902	50,008
Earnings of gas utilities	21,799	21,464	20,774
Net Income	\$ 104,302	\$ 78,366	\$ 70,782
Capital expenditures			
Oil and gas(ii)	\$ 155,350	\$ 106,090	\$ 133,999
Mineral resources		442	27,721
	\$ 155,350	\$ 106,532	\$ 161,720
Identifiable assets			
Oil and gas	\$1,099,369	\$1,000,865	\$ 953,164
Mineral resources	510,543	490,092	190,883
Gas utilities investment	240,000	211,780	207,937
	\$1,849,912	\$1,702,737	\$1,351,984

(i) Before deducting production revenue taxes which include petroleum gas revenue tax and Newfoundland royalty tax on mineral resources.

(ii) Net of petroleum incentive payments of \$85,699,000 in 1984; \$84,229,000 in 1983 and \$83,758,000 in 1982.

(Tabular amounts are in thousands of dollars except where noted)

Note 12

United States accounting principles

Norcen follows Canadian accounting principles which are different in some respects from those applicable in the United States and from practices prescribed by

the United States Securities and Exchange Commission ("SEC"). These differences would have affected income from continuing operations as follows:

Year ended December 31	1984	1983	1982
Income from continuing operations based on Canadian accounting principles	\$ 82,503	\$ 56,902	\$ 50,008
Prior period adjustment regarding the Suncor litigation(i)	(24,338)	3,548	3,514
Foreign currency translation adjustment on long-term debt(ii)	(5,766)	(601)	5,335
Application of SEC prescribed full cost method net of related deferred income taxes(iii)	2,024	4,150	246
Amortization of excess cost of minority shares in 1975 reorganization(iv)	(607)	(668)	(601)
Income from continuing operations based on United States accounting principles	\$ 53,816	\$ 63,331	\$ 58,502
Earnings from continuing operations per ordinary share			
Canadian	\$ 1.26	\$ 0.99	\$ 0.90
United States	\$ 0.75	\$ 1.12	\$ 1.06

(i) Under Canadian accounting principles the outcome of the Suncor litigation involving royalties received or receivable dating back to 1979 constitutes a prior period adjustment (Note 2). However, under United States accounting principles, the entire adjustment would have been reflected in current income.

(ii) Effective January 1, 1984, Norcen defers and amortizes, over the term of the debt, the gain or loss on the translation of the non-current portion of long-term debt in foreign currencies at the rate of exchange in effect at year end (see Accounting Policies — Foreign currency translation). Under United States accounting principles the entire gain or loss on

translation of the long-term debt would be charged to income.

(iii) Norcen accounts for its exploration and development expenditures under the full cost method on a world-wide basis. This adjustment reflects the country-by-country full cost method prescribed by the SEC.

(iv) A corporate reorganization in 1975 was accounted for in the manner of a pooling of interests. Under United States accounting principles, it would have been accorded purchase accounting treatment. Accordingly, the cost of the minority shares over their underlying book value of \$16,900,000 would have been included in properties, plant and equipment.

The cumulative effect of the application of the above noted United States accounting principles on retained earnings would be as follows:

December 31	1984	1983	1982
Retained earnings based on Canadian accounting principles	\$351,540	\$287,047	\$238,084
Prior period adjustment in 1984 in regard to the Suncor litigation		24,338	20,790
Write-off of unrealized exchange losses on long-term debt	(7,347)	(1,581)	(980)
Application of SEC full cost method	(25,277)	(27,301)	(31,451)
Amortization of excess cost of minority shares in 1975 reorganization	(7,486)	(6,879)	(6,211)
Other(i)	(20,920)	(20,920)	(20,920)
Retained earnings based on United States accounting principles	\$290,510	\$254,704	\$199,312

(i) Cumulative effect of income accruing to the minority interests prior to the date of the 1975 reorganization, net of the excess cost of the minority shares, would not have been credited to retained earnings.

Pursuant to United States generally accepted accounting principles the Convertible Junior Preference Shares, 1981 Series and Series B in the amount of \$9,956,000 and \$4,291,000 in 1984 and 1983, respectively, would have been reclassified from shareholders' equity to non-current liabilities. The

amounts receivable from officers and directors for the purchase of these shares in the amounts of \$9,956,000 and \$4,291,000 at December 31, 1984 and 1983, respectively, would be reclassified as a deduction from these non-current liabilities.

(Tabular amounts are
in thousands of dollars
except where noted)

Supplemental information

(unaudited)

Quarterly and other financial data

The following quarterly financial data for both 1984 and 1983 excludes the sales and other revenues, costs and expenses of the gas utilities operations sold September 30, 1984 (Note 3) but includes Norcen's

equity in their earnings. Previously reported figures have also been adjusted for the effect of the prior period adjustment (Note 2) and the reclassification of production revenue taxes (Note 10).

	Quarter				Year
	First	Second	Third	Fourth	
1984					
Sales and other revenues					
As previously reported	\$127,674	\$119,312	\$122,378	\$149,608	\$518,972
Prior period adjustment	(2,756)	(2,506)	(3,475)		(8,737)
Production revenue taxes	16,934	14,347	17,323	11,419	60,023
As restated	\$141,852	\$131,153	\$136,226	\$161,027	\$570,258
Net income					
As previously reported	\$ 39,728	\$ 23,774	\$ 9,383	\$ 34,971	\$107,856
Prior period adjustment	(1,121)	(1,021)	(1,412)		(3,554)
As restated	\$ 38,607	\$ 22,753	\$ 7,971	\$ 34,971	\$104,302
Earnings per ordinary share					
As previously reported					
Basic	\$ 0.66	\$ 0.37	\$ 0.11		
Fully diluted(i)	0.62	0.37	0.11		
As restated					
Basic	0.64	0.35	0.09	\$ 0.57	\$ 1.65
Fully diluted(i)	0.60	0.35	0.09	0.54	1.62
Dividends paid per ordinary share(ii)	0.125	0.125	0.125	0.125	0.50
Market price per share(iii)					
Voting ordinary					
High	18 $\frac{3}{8}$	20	19 $\frac{1}{4}$	19 $\frac{1}{2}$	
Low	15 $\frac{7}{8}$	16 $\frac{3}{8}$	14 $\frac{3}{4}$	15	
Non-voting ordinary					
High	16 $\frac{5}{8}$	18 $\frac{1}{2}$	17 $\frac{3}{8}$	18 $\frac{1}{4}$	
Low	14 $\frac{5}{8}$	14 $\frac{3}{4}$	13 $\frac{5}{8}$	13 $\frac{3}{4}$	
1983					
Sales and other revenues					
As previously reported	\$100,140	\$ 86,041	\$ 99,615	\$128,505	\$414,301
Prior period adjustment	(2,970)	(3,428)	(2,321)	(2,426)	(11,145)
Production revenue taxes	12,775	11,446	14,215	11,031	49,467
As restated	\$109,945	\$ 94,059	\$111,509	\$137,110	\$452,623
Net income					
As previously reported	\$ 32,082	\$ 15,888	\$ 9,402	\$ 24,542	\$ 81,914
Prior period adjustment	(968)	(1,098)	(724)	(758)	(3,548)
As restated	\$ 31,114	\$ 14,790	\$ 8,678	\$ 23,784	\$ 78,366
Earnings per ordinary share					
As previously reported					
Basic	\$ 0.59	\$ 0.28	\$ 0.17	\$ 0.42	\$ 1.46
Fully diluted(i)	0.57	0.28	0.17	0.41	1.44
As restated					
Basic	0.57	0.26	0.15	0.41	1.39
Fully diluted(i)	0.56	0.26	0.15	0.41	1.38
Dividends paid per ordinary share(ii)	0.125	0.125	0.125	0.125	0.50
Market price per share(iii)					
Voting ordinary					
High				19 $\frac{1}{4}$	
Low				16 $\frac{3}{4}$	
Non-voting ordinary					
High				17 $\frac{7}{8}$	
Low				15 $\frac{5}{8}$	
Common(iv)					
High	33	37 $\frac{1}{4}$	41	38 $\frac{3}{8}$	
Low	28 $\frac{1}{8}$	29 $\frac{5}{8}$	35 $\frac{1}{4}$	33 $\frac{7}{8}$	

(Tabular amounts are in thousands of dollars except where noted)

(i) The sum of quarterly earnings per share for the year does not equal earnings per share for the year due to the effect on average outstanding shares of the conversion of preference shares.
(ii) United States residents are subject to a 15% withholding tax.

(iii) The market prices are as reported by The Toronto Stock Exchange, which is the principal market of the ordinary shares of Norcen. There is no established public trading market in the United States.
(iv) On November 4, 1983 each common share was changed into one voting ordinary share and one non-voting ordinary share (Note 9(a)).

Oil and gas information

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

Exploration and production activities

Norcen has capitalized property acquisition, exploration and development costs pertaining to its Canadian and foreign oil and gas operations as follows:

December 31	1984	1983
Properties		
Canada		
proven	\$ 867,742	\$ 790,788
unproven	60,664	51,881
Foreign(i)		
proven	111,459	75,306
unproven	13,813	11,226
Production equipment	214,522	192,687
	1,268,200	1,121,888
Accumulated depreciation, depletion and amortization	393,973	328,644
Capitalized costs	\$ 874,227	\$ 793,244

(i) Principal areas of spending have been in Australia, and the United States.

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

	Canada	Foreign	Total
Costs capitalized in the year			
1984			
Property acquisition	\$ 15,869	\$ 6,913	\$ 22,782
Exploration(i)			
proven	46,732	28,012	74,744
unproven	8,783	2,587	11,370
Development(i)	32,678	4,738	37,416
Total capitalized	\$ 104,062	\$ 42,250	\$ 146,312
1983			
Property acquisition	\$ 20,068	\$ 2,970	\$ 23,038
Exploration(i)			
proven	40,283	(11,261)	29,022
unproven	19,442	(782)	18,660
Development(i)	35,702	(2,249)	33,453
Total capitalized	\$ 115,495	\$ (11,322)	\$ 104,173
1982			
Property acquisition	\$ 15,112	\$ 865	\$ 15,977
Exploration(i)			
proven	121,000	26,441	147,441
unproven	(71,685)	(4,806)	(76,491)
Development(i)	41,263	3,535	44,798
Total capitalized	\$ 105,690	\$ 26,035	\$ 131,725

(i) Exploration and development costs in Canada are shown net of petroleum incentive payments earned of \$85,699,000 in 1984, (\$84,229,000 in 1983; \$83,758,000 in 1982).

(Tabular amounts are
in thousands of dollars
except where noted)

	Canada	Foreign	Total
Net revenues from producing oil and gas			
1984			
Gross revenue(i)	\$540,912	\$ 2,910	\$543,822
Production expenses	248,417	898	249,315
Depreciation, depletion and amortization expense(iii)	60,966	4,363	65,329
	231,529	(2,351)	229,178
Income tax expense	129,524		129,524
Results of operations from producing activities (excluding corporate overhead and interest costs)	\$102,005	\$ (2,351)	\$ 99,654
1983			
Gross revenue(i)(ii)	\$ 465,620	\$ 2,618	\$ 468,238
Production expenses	219,491	1,140	220,631
Depreciation, depletion and amortization expense(iii)	51,960	5,880	57,840
	194,169	(4,402)	189,767
Income tax expense(ii)	107,773		107,773
Results of operations from producing activities (excluding corporate overhead and interest costs)(ii)	\$ 86,396	\$ (4,402)	\$ 81,994
1982			
Gross revenue(i)(ii)	\$ 389,993	\$ 2,210	\$ 392,203
Production expenses	190,505	830	191,335
Depreciation, depletion and amortization expense(iii)	38,104	4,944	43,048
	161,384	(3,564)	157,820
Income tax expense(ii)	71,983		71,983
Results of operations from producing activities (excluding corporate overhead and interest costs)(ii)	\$ 89,401	\$ (3,564)	\$ 85,837

(i) Revenue is before freehold and crown royalty payments of \$ 153,323,000 in 1984 (\$ 122,644,000 in 1983; \$ 103,501,000 in 1982) which have been included in production expenses.

(ii) The financial data presented has been restated for

the prior period adjustment reflecting the current status of the Suncor litigation (Note 2).

(iii) Depletion expense per dollar of net revenue (gross revenue less freehold and crown royalties and production revenue taxes) was \$0.16, \$0.15 and \$0.13 in 1984, 1983 and 1982, respectively.

Reserves as determined by company engineers are stated 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 reserve information provided below, as determined by independent reservoir engineers, McDaniel & Associates Consultants Ltd., is provided on a

proven reserve basis only, after deducting royalty interests of governments and others. All of Norcen's proven reserves are developed. The reserve quantity information summarizes the changes in quantities of net proven Canadian oil and gas reserves determined using constant prices and costs. Such quantities vary from reserves determined by company engineers primarily due to timing differences in making reserve estimates.

Year ended December 31	1984		1983		1982	
	liquids (000s bbls)	gas (mmcf)	liquids (000s bbls)	gas (mmcf)	liquids (000s bbls)	gas (mmcf)
Beginning of year	73,139	665,594	73,473	696,889	79,121	617,663
Revisions of previous estimates	5,826	7,618	5,668	(17,208)	843	61,690
Purchase of reserves in place						13,393
Extensions, discoveries and other additions	1,238	12,341	2,552	15,861	1,042	38,149
Production	(9,710)	(33,379)	(8,554)	(29,948)	(7,533)	(34,006)
End of year	70,493	652,174	73,139	665,594	73,473	696,889

Oil and gas liquids at the end of each year include 17.3, 18.2 and 17.4 million barrels in 1984, 1983 and 1982, respectively, as Norcen's oil sands royalty interest.

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 assumed to be constant, 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	1984	1983	1982
	(millions of dollars)		
Future cash inflows	\$5,364	\$5,584	\$5,851
Future production costs	2,624	2,808	2,828
Future development costs	60	60	55
Future income tax expense (undiscounted)	1,434	1,478	1,613
Future net cash flows	\$1,246	\$1,238	\$1,355
Standardized measure of discounted future net cash flows	\$ 694	\$ 649	\$ 680

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

Year ended December 31	1984	1983	1982
	(millions of dollars)		
Sales of oil and gas and value of transfers	\$ (295)	\$ (253)	\$ (204)
Net changes in prices and production costs			
conventional reserves	47	(11)	259
oil sands royalty	(36)	(22)	36
Extensions, discoveries and improved recovery, less related costs	30	55	38
Purchases of reserves in place			14
Development costs incurred during the period	11	7	11
Revisions of previous quantity estimates and other	199	54	162
Accretion of discount	65	68	48
Net changes in income taxes	24	71	(168)
Net increase (decrease)	45	(31)	196
Beginning of year	649	680	484
End of year	\$ 694	\$ 649	\$ 680

Five-year summary

	1984	1983	1982	1981	1980
Income	(millions of dollars)				
Sales and other revenues					
Oil and gas	\$ 519.5	\$ 429.8	\$ 369.0	\$ 262.6	\$ 246.9
Mineral resources	50.7	22.8	5.3	2.7	
	570.2	452.6	374.3	265.3	246.9
Costs and expenses					
Gas purchases	54.0	47.3	41.4	34.3	28.2
Production, operations and administration	105.8	96.1	90.3	77.5	67.7
Production revenue taxes	60.0	49.4	40.5	18.1	
Depreciation and depletion	78.6	62.2	44.9	33.9	37.2
Interest	66.9	61.0	57.4	35.8	25.5
Income taxes	120.8	78.1	48.2	35.9	32.2
Minority interests	1.6	1.6	1.6	0.6	0.9
	487.7	395.7	324.3	236.1	191.7
Income from continuing operations	82.5	56.9	50.0	29.2	55.2
Earnings of gas utilities	21.8	21.5	20.8	16.6	17.7
Income before extraordinary item	\$ 104.3	\$ 78.4	\$ 70.8	\$ 45.8	\$ 72.9
Dividends on preference shares	\$ 11.7	\$ 2.2	\$ 2.1	\$ 2.3	\$ 2.4
Income applicable to ordinary shares before extraordinary item	\$ 92.6	\$ 76.2	\$ 68.7	\$ 43.5	\$ 70.5
Cash from operations	\$ 214.5	\$ 181.9	\$ 150.0	\$ 105.0	\$ 135.3
Capital expenditures					
Oil and gas	\$ 155.4	\$ 106.1	\$ 134.0	\$ 100.9	\$ 188.5
Mineral resources		0.4	27.7		
	\$ 155.4	\$ 106.5	\$ 161.7	\$ 100.9	\$ 188.5
Ordinary shares(i)	(millions)				
Average number of outstanding	56.2	54.7	53.2	53.4	52.9
Number of shareholders	(thousands)				
voting	17.2	18.1	20.9	22.3	24.0
non-voting	17.1	18.7	20.9	22.3	24.0
Earnings per share (before extraordinary item)	(dollars)				
	\$ 1.65	\$ 1.39	\$ 1.29	\$ 0.81	\$ 1.33
Dividends per share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.475
Market price					
High	\$ 20.00	\$ 20.50	\$ 17.63	\$ 17.13	\$ 20.00
Low	\$ 13.625	\$ 14.06	\$ 10.88	\$ 10.50	\$ 14.00
Close					
voting	\$ 15.50	\$ 17.13	\$ 14.56	\$ 13.44	\$ 15.50
non-voting	\$ 14.00	\$ 16.13	\$ 14.56	\$ 13.44	\$ 15.50
Capitalization	(millions of dollars)				
Long term debt (excluding current maturities)	\$ 335.1	\$ 457.6	\$ 263.0	\$ 142.9	\$ 152.5
Deferred income taxes	273.6	220.8	171.6	131.0	100.5
Minority interests	13.2	11.6	7.9	6.3	6.2
Redeemable preference shares	158.7	153.2	38.9	42.6	40.3
Ordinary shareholders' equity	628.5	560.3	476.2	429.7	408.9
	\$1,409.1	\$1,403.5	\$ 957.6	\$ 752.5	\$ 708.4
Assets					
Properties, plant and equipment	\$1,125.1	\$1,048.1	\$ 791.5	\$ 674.3	\$ 607.4
Total assets	\$1,849.9	\$1,702.7	\$1,352.0	\$1,063.2	\$ 899.2

(i) On the assumption that, prior to a change in share capital on November 4, 1983, each ordinary share was equivalent to one-half a common share.

	1984	1983	1982	1981	1980
Oil and gas					
Production (before royalties)					
Crude oil, synthetic crude oil and natural gas liquids	(thousands of barrels per day) 34.7	30.9	27.0	24.9	27.2
Natural gas	(millions of cubic feet per day) 130.7	119.3	137.8	131.9	149.7
Sulphur	(thousands of long tons) 42.0	34.0	44.0	39.3	36.9
Gas gathering and transmission sales	(millions of cubic feet per day) 47.6	46.0	45.8	48.2	53.9
Oil gathering and transmission throughput	(thousands of barrels per day) 84.6	81.2	77.1	63.2	70.4
Liquefied petroleum gas sales	(millions of imperial gallons) 65.2	60.2	65.2	61.2	62.8
Reserves (before royalties)					
Oil and gas liquids	(millions of barrels) 115.8	117.5	114.3	119.7	122.1
Natural gas	(billions of cubic feet) 1,086.0	1,103.0	1,133.0	1,127.3	1,127.4
Sulphur	(thousands of long tons) 408.0	438.0	492.0	437.0	489.0
Oil and gas land holdings	(millions of gross acres) 27.9	21.5	23.1	23.6	30.0
	(millions of net acres) 5.1	4.6	5.4	5.9	7.1
Mineral resources (acquired in July, 1983)					
Iron ore sales					
Pellets	(millions of tonnes) 6.8	6.3	6.1	11.6	12.3
Concentrates and other	7.5	6.8	7.4	9.6	9.2
	14.3	13.1	13.5	21.2	21.5
Employees at year-end	(number) 1,060	1,046	1,135	1,027	1,045

Directors and officers

Directors

Robert F. Anderson⁴
Cleveland, Ohio
Chairman and
Chief Executive Officer,
The Hanna Mining
Company
Chairman and
Chief Executive Officer,
Iron Ore Company of
Canada

Donald D. Barkwell
Calgary, Alberta
Executive Vice-President

Douglas G. Bassett⁴
Toronto, Ontario
President and
Chief Executive Officer,
Baton Broadcasting
Incorporated

Edward G. Battle¹
Toronto, Ontario
President and
Chief Executive Officer

Conrad M. Black¹
Toronto, Ontario
Chairman of the Board
Chairman, Argus
Corporation Limited

G. Montegu Black^{1,3}
Toronto, Ontario
President and
Chief Executive Officer,
Argus Corporation
Limited

Edmund C. Bovey, c.m.¹
Toronto, Ontario
Director of
various companies

Dixon S. Chant^{1,3}
Toronto, Ontario
Deputy Chairman,
Argus Corporation
Limited

E. Jacques Courtois, q.c.¹
Montreal, Quebec
Partner, Stikeman Elliott
Barristers and Solicitors

Robert Després, o.c.³
Quebec City, Quebec
Chairman,
Atomic Energy of
Canada Limited

Fredrik S. Eaton^{3,4}
Toronto, Ontario
Chairman, President and
Chief Executive Officer,
The T. Eaton Company
Limited

John R. Finlay, q.c.²
Toronto, Ontario
Vice-President,
Argus Corporation
Limited

Percy C. Finlay, q.c.⁴
Toronto, Ontario
Chairman, Hollinger
Argus Limited and
Labmin Resources
Limited
Partner, Holden,
Murdoch and Finlay
Barristers and Solicitors

Frederick A.M. Huycke, q.c.
Toronto, Ontario
Partner, Osler,
Hoskin & Harcourt
Barristers and Solicitors

Richey B. Love, q.c.²
Calgary, Alberta
Partner, Macleod Dixon
Barristers and Solicitors

Hon. W. John McKeag²
Winnipeg, Manitoba
President,
McKeag Realty Ltd.

F. David Radler^{2,3}
Vancouver,
British Columbia
President, Sterling
Newspapers Ltd.
President and
Chief Executive Officer,
Dominion Stores Limited

C. Bruce Ross
Toronto, Ontario
Vice-President, Minerals
President, Labrador
Mining and Exploration
Company Limited

John R. Yarnell²
Toronto, Ontario
President, Yarnell
Companies Limited

Officers

Conrad M. Black
Chairman of the Board

Edward G. Battle
President and
Chief Executive Officer

Donald D. Barkwell
Executive
Vice-President

Barry D. Cochrane
Senior Vice-President

* **Jean-J. Leroux**
Senior Vice-President,
Utilities

Paul H. Palmer
Senior Vice-President,
Administration and
Comptroller

Kenneth L. Colby
Vice-President,
Corporate Affairs

**William C.
Hennenfent**
Vice-President,
Exploration

William T. Kilbourne
Vice-President,
Legal and Secretary

Wilfrid A. Loucks
Vice-President

Wayne M. Newhouse
Vice-President,
Production

C. Bruce Ross
Vice-President, Minerals

Timothy G. Sheeres
Vice-President, Finance

Gordon B. Singer
Vice-President,
Accounting and Services

Arthur L. Wood
Vice-President,
Heavy Oil

Alick S.G. Duguid
Treasurer

Thomas G. Bane
Assistant Secretary

Christine L. Elliot
Assistant Secretary

**E.M. (Lynne)
Macdonald**
Assistant Treasurer

Mart Pedel
Assistant Treasurer

* Mr. Leroux resigned
from the Company on
January 25, 1985.

¹Executive Committee

²Audit Committee

³Compensation Committee

⁴Pension Committee

Distribution of voting ordinary shares

As at December 31, 1984

	Shareholders		Shares	
	Number	Percent	Number	Percent
			(thousands)	
Alberta	1,845	10.75	880	3.14
British Columbia	1,994	11.62	835	2.97
Manitoba	780	4.54	363	1.29
New Brunswick	156	0.91	25	.09
Newfoundland	31	0.18	5	.02
Northwest Territories	9	0.05	1	.01
Nova Scotia	430	2.51	141	.50
Ontario	6,263	36.48	21,180	75.47
Prince Edward Island	48	.28	12	.04
Quebec	1,768	10.30	4,093	14.58
Saskatchewan	381	2.22	89	.32
Yukon	2	.01	1	.01
Total Canadian	13,707	79.85	27,625	98.44
U.S.A.	3,329	19.39	410	1.46
Other foreign	131	.76	29	.10
Total	17,167	100.00	28,064	100.00

Distribution of non-voting ordinary shares

As at December 31, 1984

	Shareholders		Shares	
	Number	Percent	Number	Percent
			(thousands)	
Alberta	1,855	10.87	1,061	3.75
British Columbia	2,034	11.92	843	2.98
Manitoba	771	4.52	707	2.50
New Brunswick	160	.94	46	.16
Newfoundland	31	.18	14	.05
Northwest Territories	8	.05	1	.01
Nova Scotia	363	2.13	172	.61
Ontario	6,184	36.25	21,915	77.50
Prince Edward Island	48	.28	12	.04
Quebec	1,751	10.27	2,957	10.46
Saskatchewan	389	2.28	99	.35
Yukon	2	.01	1	.01
Total Canadian	13,596	79.70	27,828	98.42
U.S.A.	3,333	19.54	419	1.48
Other foreign	129	.76	28	.10
Total	17,058	100.00	28,275	100.00

Corporate information

Offices

Executive & Registered

4600 Toronto-Dominion
Centre
Toronto, Ontario
M5K 1E5
(416) 947-4000

Oil and gas division

**Norcen Energy
Resources Limited**¹

Cigas Products Ltd.^{2,7}

**Prairie Oil Royalties
Company, Ltd.**^{3,9}

**Norcen International
Ltd.**^{2,7}

715 -5th Avenue S.W.
Calgary, Alberta
T2P 2X7
(403) 231-0111

Mineral resources division

**Labrador Mining and
Exploration
Company Limited**^{4,7}

4600 Toronto-Dominion
Centre
Toronto, Ontario
M5K 1E5
(416) 947-4000

**Coleman Collieries
Limited**^{2,9}

Coleman, Alberta
TOK 0M0
(403) 562-2841

* Gas utilities division

* **Northern and Central
Gas Corporation
Limited**^{5,7}

245 Yorkland Boulevard
North York, Ontario
M2J 1R1
(416) 491-1880

* **Greater Winnipeg
Gas Company**^{6,8}

265 Notre Dame Avenue
Winnipeg, Manitoba
R3B 1N9
(204) 988-3711

Transfer agents and registrars

Ordinary shares

The National Victoria
and Grey Trust Company,
Toronto, Calgary,
Montreal, Winnipeg
and Vancouver

Canada Permanent
Trust Company
Regina

Morgan Guaranty Trust
Company of New York,
New York

Preference shares

The National Victoria
and Grey Trust Company,
Toronto, Calgary,
Montreal, Winnipeg
and Vancouver

Canada Permanent
Trust Company
Regina

Stock exchange listings and symbols

Toronto and Montreal stock exchanges

Voting Ordinary Shares:
NCN

Non-Voting Ordinary
Shares: NCN.A

First Preference Shares,
Series A: NCNPr.A

First Preference Shares,
Series B: NCNPr.B

Junior Preference
Shares, 1983
Series: NCNPr.E

Luxembourg Stock Exchange

12¾% Unsecured
Debentures, Series A

Trustees

10¼% & 11¼% Secured
Notes due December
31, 1988

The Royal Trust
Company, Toronto

11¼% Secured
Debentures due August
15, 1996

The National Victoria
and Grey Trust Company,
Toronto

12¾% Unsecured
Debentures, Series A
due August 15, 1993
Guaranty Trust Company
of Canada, Toronto

13¼% Unsecured
Debentures, Series B
due December 19, 2003
Guaranty Trust Company
of Canada, Toronto

Auditors

Thorne Riddell
Chartered Accountants

10-K Report

A copy of the Company's
10-K report filed with the
United States Securities
and Exchange Commis-
sion will be sent to any
registered shareholder
upon written request to
the Company Secretary.

Annual Meeting

The annual meeting of
shareholders will be held
in Commerce Hall, Com-
merce Court West, King
and Bay Streets, Toronto,
Ontario, on Tuesday,
April 16, 1985 at 10:00
a.m. local time. Share-
holders are encouraged to
attend the meeting,
but those unable to do so
are asked to sign and
return the form of proxy
mailed with this report.

¹ Federal company

² Alberta company

³ Saskatchewan
company

⁴ Newfoundland
company

⁵ Ontario company

⁶ Manitoba company

⁷ 100% owned

⁸ More than 99% owned

⁹ 74% owned

* The gas utilities division
was sold to Inter-City
Gas Corporation effective
September 30, 1984.

