Norcen annual report 1980

Norcen
Energy Resources Limited

Norcen is an energy resource company whose principal business is the exploration, development and production of oil and natural gas in Canada. Norcen also explores for minerals in Canada, for oil and natural gas in the United States and elsewhere, and owns and operates significant natural gas distribution systems in Canada. There are 26,659,793 common and 896,925 voting preference shares outstanding, having an aggregate quoted market value at December 31, 1980 of $870 million. Norcen has 27,075 registered shareholders of whom those with Canadian addresses account for 96% of the shares outstanding.

Annual meeting

The annual meeting of shareholders will be held in Commerce Hall, Commerce Court West, King and Bay Streets, Toronto, Ontario, on Wednesday, April 15, 1981, at 10:00 a.m. local time. Shareholders 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.

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Front Cover *Drilling in the Golden area, Alberta*

Highlights

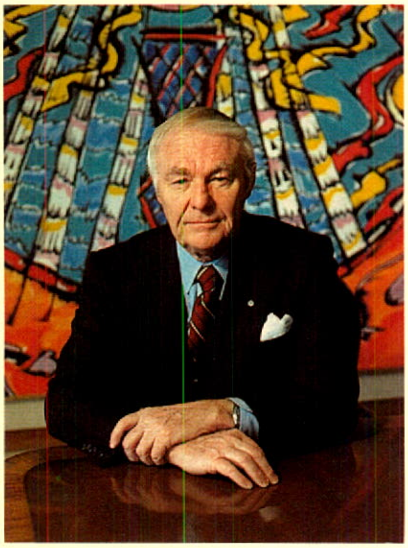
Financial

		1980	1979	Percentage Change
Sales and other revenues	millions	**$746.9**	$643.7	+16%
Funds from operations	millions	**$171.7**	$131.6	+30%
Income applicable to common shares	millions	**$ 83.5**	$ 63.1	+32%
Capital expenditures	millions	**$218.6**	$189.6	+15%
Average number of common shares outstanding	millions	**26.4**	23.4	+13%
Earnings per common share		**$ 3.16**	$ 2.70	+17%
Dividends per common share		**$ 0.95**	$ 0.76	+25%
Market price per common share				
High		**$ 40.00**	$34.00	
Low		**$ 28.00**	$16.50	
Close		**$ 31.00**	$31.88	
Volume of trading in common shares	millions	**19.1**	21.9	

Operating

		1980	1979	Percentage Change
Oil and gas production	daily average			
Oil and gas liquids	thousands of barrels	**27.2**	26.0	+ 5%
Natural gas	millions of cubic feet	**149.7**	169.3	−12%
Gross wells drilled		**434**	299	+45%
Oil and gas reserves				
Oil and gas liquids	millions of barrels	**122.1**	129.0	− 5%
Natural gas	billions of cubic feet	**1,127.4**	1,144.9	− 2%
Gas utilities sales	billions of cubic feet	**172.9**	179.2	− 4%

Report to the Shareholders



Edmund C. Bovey, C.M.,
Chairman of the Board

Record net income, cash flow and capital expenditures, a strong balance sheet and an increased dividend for shareholders all contributed to making 1980 an outstanding year for Norcen Energy Resources Limited. Exploration success and acquisitions during the past several years have placed Norcen among the leading Canadian-owned energy companies.

Income applicable to common shares for 1980 was $83.5 million, $3.16 per share, up 32% from $63.1 million, $2.70 per share, a year ago. Higher wellhead prices for crude oil and natural gas and increased production rates for oil, although offset by lower natural gas production, resulted in substantially higher resource earnings. Utility earnings, which had been adversely affected by warmer weather and the effects of conservation in the earlier months, benefited from the extreme cold in the last few months and were down slightly from last year.

The financial results achieved for the year were in line with projections made in the 1979 annual report. Since then some events have taken place which, while not materially affecting the 1980 results, may have an adverse effect on growth and earnings in 1981 and beyond. These include the reduction in natural gas exports to the United States resulting from an improvement in domestic gas supply in that country due to higher exploration and price deregulation, and the National Energy Program announced October 28, 1980. It is too early to fully assess their effect on Norcen. Reduced gas exports could continue for two to three years. Since its introduction the National Energy Program has been modified as to definition of eligible exploration costs and there are indications of further changes which may mitigate its impact on the industry.

Natural resources

Exploratory drilling in 1980 was maintained at a high level, resulting in significant discoveries. Heavy oil acquisitions in late 1979 and early 1980 together with exploration success have resulted in a marked increase in crude oil production. Natural gas production was lower during the summer and fall due to cutbacks in exports to the U.S. market.

Considerable progress was made in the heavy oil program and by year end daily production of heavy oil averaged more than 2,500 barrels, up from 500 barrels a year ago. For 1981 $19 million has been budgeted for heavy oil exploration and development.

The Athabasca oil sand royalty contributed $33.7 million to Norcen's gross revenues in 1980, which will be reduced by 50% in 1981 if there is no modification to synthetic oil pricing as stated in the National Energy Program. However, this matter is under review by the federal government and it is hoped that the result will be an improvement in the price structure.

In keeping with Norcen's long range plans of participating in oil and gas exploration in the United States, Norcen opened an office in Denver, Colorado in January 1981. Norcen's activities in the United States in 1980 included additional land acquisitions and participation in the drilling of 17 wells.

Following cessation of mining operations by Coleman Collieries and the completion of its metallurgical coal contracts, Coleman is testing the feasibility of producing thermal coal for the Japanese market by rewashing accumulated waste coal.

Gas utilities

Customer growth benefited from the accelerated trend towards conversion by residential users to natural gas as a preferred fuel, offering security of supply, convenience and economy. A total of over 14,000 new residential, commercial and industrial customers were attached by Norcen's three distribution systems during the year.

Norcen supports the National Energy Program's policy of encouraging substitution of oil with natural gas and accordingly has developed plans for a number of gas line extensions.

In July 1980 Northern and Central Gas Corporation Limited sold to four Quebec-based institutions $26 million principal amount of debentures exchangeable into a part of its Gaz Métropolitain common

Edward G. Battle, President and Chief Executive Officer

share holding. With the debenture holders having the right to vote such common shares, Northern and Central Gas reduced its voting interest in Gaz Métropolitain to 49% from 72%. Later in 1980, agreement in principle was reached to sell to Caisse de dépôt et placement du Québec $55 million principal amount of debentures exchangeable into Northern and Central's remaining 49% voting interest in Gaz Métropolitain; the issue of debentures, which provides full voting control of Gaz Métropolitain being held within the province of Quebec, is expected to be completed in March 1981.

These transactions fulfil an undertaking to the Government of the Province of Quebec some years ago to provide for ownership within the province and will have been completed at a time when Gaz Métropolitain has applied for additional franchises involving major expansion of its distribution system based on the extension of the natural gas transmission line east of Montreal.

Capital expenditures

Capital expenditures in 1980 totalled $248 million of which $153.6 million was for resource exploration and development, $34.9 million for resource acquisitions and $59.5 million for utility expansion and facilities, including $29.3 million by Gaz Métropolitain. Including incentive payments of $30 million expected under the National Energy Program, gross capital expenditures in 1981 have been budgeted at $160 million for natural resources and $48 million for the gas utilities in Ontario and Manitoba. Gaz Métropolitain has planned capital spending of $64.7 million for 1981.

Finance

The most significant financial matter during the year was the planned reorganization of which shareholders were advised in July. The plan to combine all the natural resource assets of Norcen, Labrador Mining and Exploration Company Limited and Hollinger Argus Limited had several objectives with potential for improvement in earnings and cash flow for the combined operations, as well as providing Norcen an opportunity for further diversification within the Canadian natural resource field.

As efforts towards the realization of the plan progressed it became apparent, however, that due to regulatory requirements and various government agency decisions, it would not be possible to complete the reorganization within the time frame originally established. When the October federal budget and National Energy Program were announced, the decision was made not to proceed with the plan because the effect of the Program on Norcen's future earnings and cash flow could not be fully determined. This action was taken so that Norcen would remain in a financial position to take full advantage of any opportunities arising from the government's new policies. The extensive iron ore assets owned by Labrador Mining and Hollinger Argus have much appeal to Norcen, representing an excellent extension of Norcen's interests in the resource sector and a long-term source of cash flow.

National Energy Program

The National Energy Program will have far reaching effects on the Canadian oil and gas industry. The announced objectives are Canadianization of the industry, energy self-sufficiency, including emphasis on frontier exploration and further development of tar sands and heavy oil, and a substantial increase in revenues to the federal government. In the opinion of some provincial governments and industry leaders the introduction of the Program has created uncertainties. Notwithstanding adjustments that may be made, the effect of the Program will be a significant reduction in the industry's earnings and cash flow in 1981 and several years thereafter, as compared with levels achieved in 1980.

Norcen, with over 95% of its shares registered in the names of Canadian residents, may benefit from higher prices for heavy oil and from the proposed incentive payments which favour companies with high Canadian ownership. These benefits will, however, be outweighed by new tax laws, including the 8% Petroleum and Gas Revenue Tax, and by the government's action to reserve a 25% interest in Canada lands.

Directors and management

Following the annual meeting in April, 1980, Edward G. Battle, President of Norcen, was appointed Chief Executive Officer. Edmund C. Bovey continued as Chairman of the Board. In September Conrad M. Black was appointed Vice-Chairman of the Board.

Directors elected at the annual meeting included: the Honourable W. John McKeag, Director and Chairman of Greater Winnipeg Gas Company; Conrad M. Black, Chairman, Argus Corporation Limited; G. Montegu Black, President and Chief Executive Officer, Argus Corporation Limited and Chairman of Dominion Stores Limited; Donald D. Barkwell, Senior Vice-President, Natural Resources of Norcen; Dixon S. Chant, Executive Vice-President, Argus Corporation Limited; Fredrik S. Eaton, Chairman, President and Chief Executive Officer of The T. Eaton Company Limited; Percy C. Finlay, Q.C., Chairman and Chief Executive Officer of Hollinger Argus Limited; John R. Finlay, Q.C., Vice-President of Argus Corporation Limited; F. David Radler, President of Sterling Newspapers Ltd., and C. Bruce Ross, President and General Manager of Labrador Mining and Exploration Company Limited. These directors have brought to the Board expert knowledge and experience from a number of sectors of Canadian business.

By the time of the 1981 annual meeting, J. Ian Crookston and William O. Twaits, C.C. will have reached normal retirement age and will not stand for reelection. Mr. Twaits has served on the Board since 1975 as has Mr. Crookston who, prior thereto, was on the Board of a predecessor company, Canadian Industrial Gas & Oil Limited, for 10 years. Both have made major contributions to the affairs of Norcen and their judicious advice and experience will be greatly missed.

Outlook

1980 was the best year yet for Norcen. While some operations were affected by factors beyond the company's control, planned diversification resulted in record net income and cash flow.

In management's view the provisions of the National Energy Program and lack of agreement between the federal and provincial governments on energy matters appear to be at this time unnecessarily detrimental to cash flow, earnings and growth of the Canadian oil and gas industry, including Norcen, and may very well affect shareholders' returns and dividends. Norcen, built on a solid financial foundation, is well positioned to continue to make an important contribution to Canada's energy future and pledges its resources to this end.

The excellent results in 1980 are due to the outstanding performance of more than 3,000 employees working across Canada, dedicated to finding and delivering more energy for Canadians. To them the directors express sincere appreciation.

On behalf of the Board

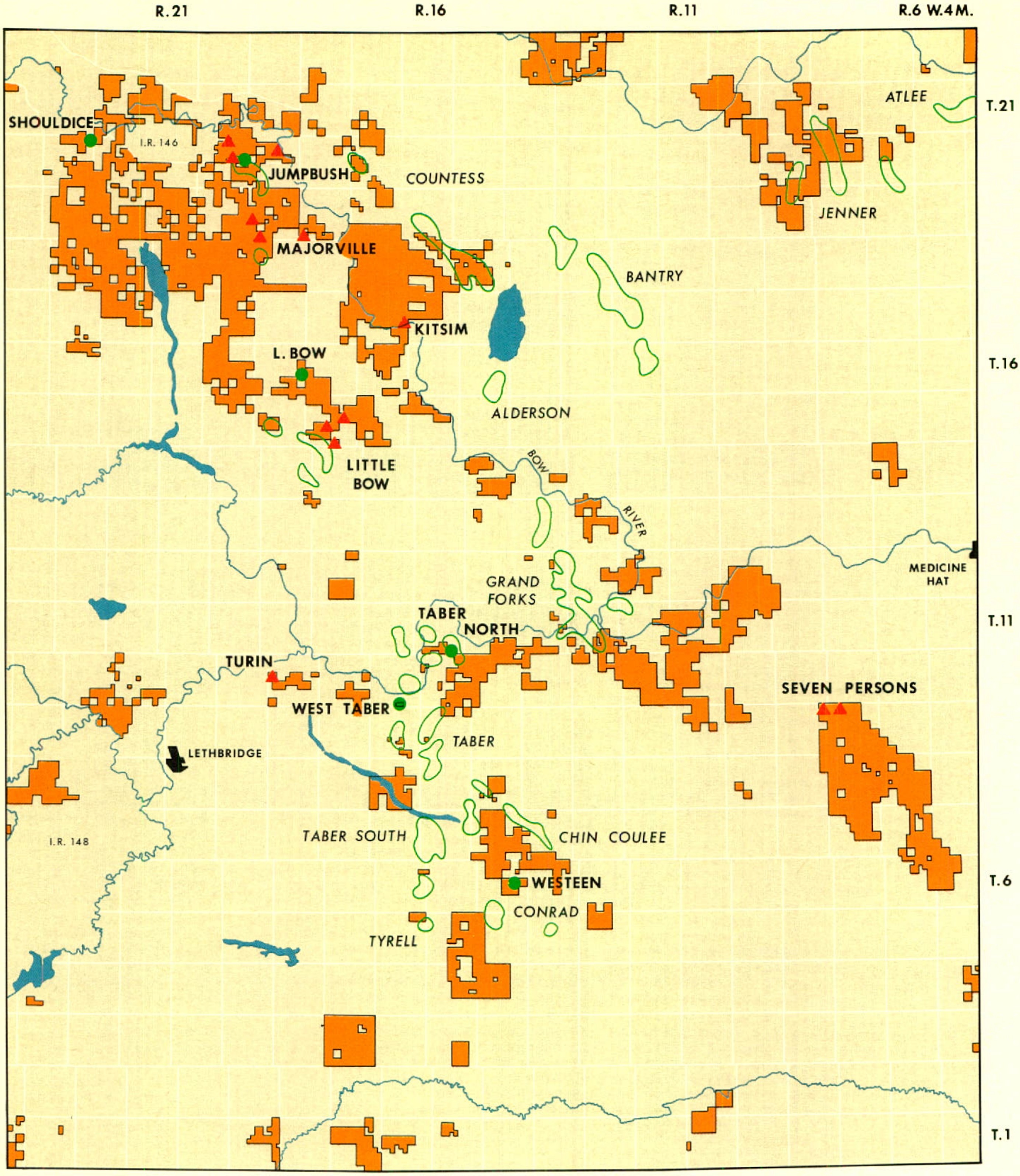
Edmund C. Bovey,
Chairman

Edward G. Battle,
President and Chief Executive Officer

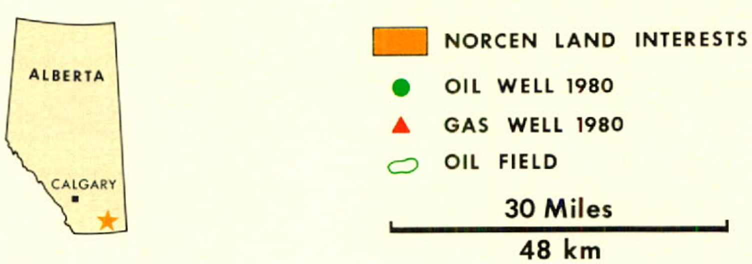
February 20, 1981.

Norcen Tower, Calgary


Norcen
Norcen

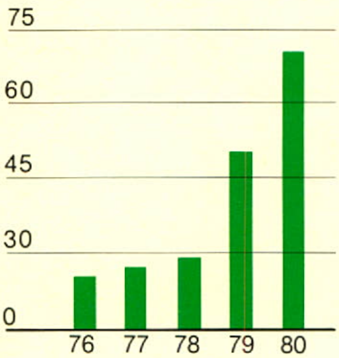


SOUTHEAST ALBERTA



Natural Resources

Natural Resources Income
(millions of dollars)



HIGHLIGHTS

- Income of $70.1 million, up 39% from $50.6 million in 1979.
- Oil and gas liquids production increased by 5% to an average of 27,200 barrels per day.
- Expenditures for oil and gas exploration increased by 79% to $89.3 million.
- Oil discoveries in the East Golden area were followed-up with 7 additional oil completions.
- Oil and gas were discovered on Norcen holdings in the Beaufort Sea and a follow-up well is being drilled.
- Exploration in the United States is being expanded with the opening of an office in Denver, Colorado.

EXPLORATION

Canada

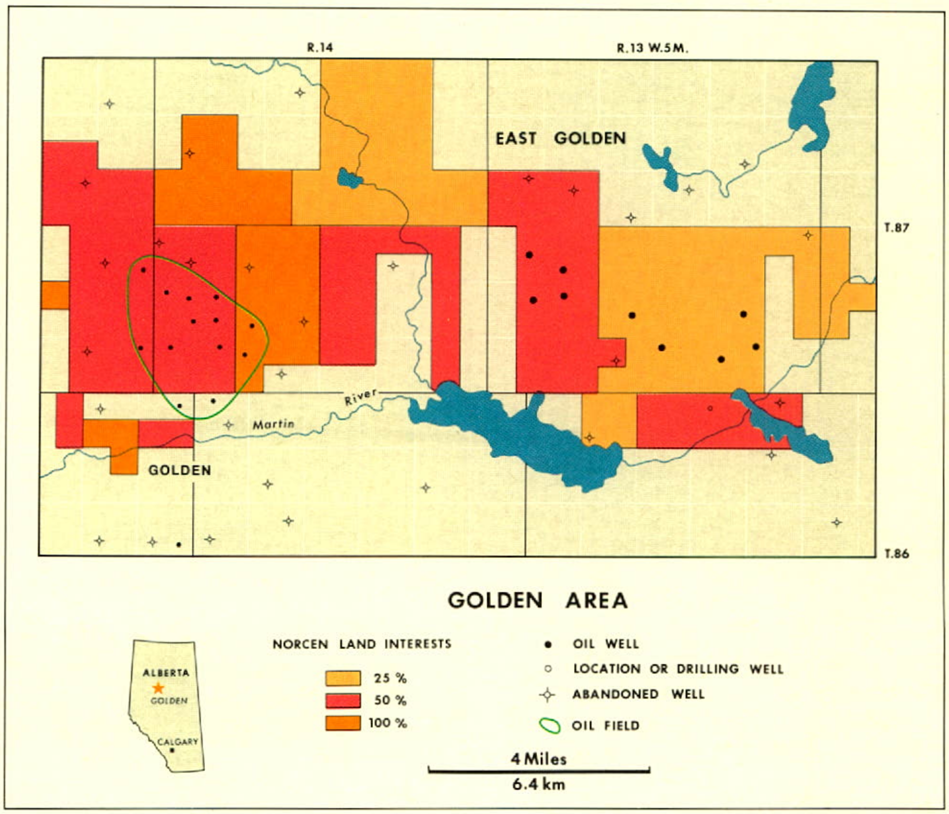
Expenditures for oil and gas exploration in Canada amounted to $78.9 million compared with $46 million in 1979. For 1981, gross exploration expenditures have been set at $83.9 million, of which $25 million is expected to be received under the federal government's incentive program.

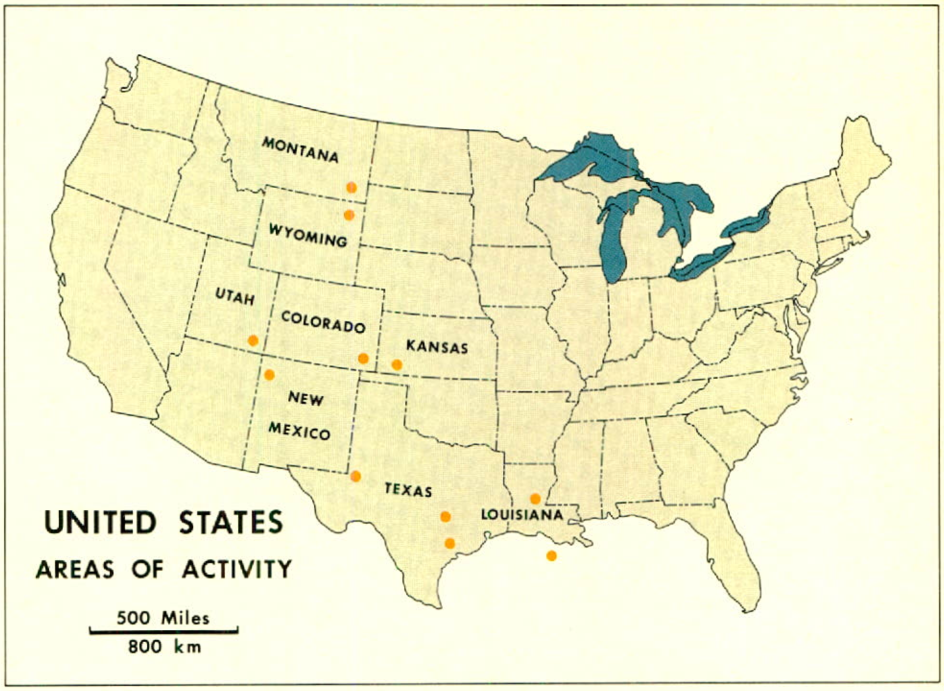
Canadian exploratory wells

	1980		1979	
	Gross	**Net**	Gross	Net
Oil	**38**	**15.0**	34	14.7
Gas	**126**	**29.3**	98	15.5
Dry	**114**	**57.0**	59	23.3
	278	**101.3**	191	53.5

During the year, oil and gas exploration expenditures were directed primarily toward conventional and heavy oil prospects in Western Canada. Norcen participated in 278 gross (101.3 net) exploratory wells. The number of net wells showed a marked increase over 1979 due to a substantially higher participation in some prospects.

At East Golden in north central Alberta, Norcen drilled 10 wells as the result of 2 oil discoveries made in 1979. The field now contains 9 wells which are productive from the Slave Point or the Gilwood formations of Devonian age and a minimum of 6 additional wells are scheduled this year. In this same general





area, an extensive seismic program and 9 exploratory wells are planned on Norcen's land holdings consisting of 252,000 gross acres along the geological trend.

In southern Alberta, Norcen participated in 64 gross (30.2 net) wells which resulted in 7 oil completions and 14 gas completions. The most significant discovery was at North Taber where a well drilled 100% by Norcen encountered a substantial thickness of oil bearing sandstone in the Glauconitic formation. Further drilling is scheduled for early 1981.

Norcen owns varying interests in 42 gas wells which were drilled in the Big Bend-Athabasca-Edmonton area. Production comes from a number of highly productive zones.

Drilling in the Cherhill-Greencourt area of Alberta resulted in 1 multi-zone gas and oil well, 1 oil well and 3 gas wells. Norcen will conduct an active seismic, land acquisition and drilling program in this area in 1981.

Canadian frontier

During 1980, Norcen increased its activity in the Canadian frontier and plans a further increase during 1981.

The company has a 4% working interest in the Issungnak 0-61 well drilled from a man-made island in the Beaufort Sea. Results from the well indicate a multi-zone oil and gas discovery. During a limited period oil flows were calculated at 2,400 barrels per day and gas flows from several zones were calculated at rates up to 14.0 million cubic feet per day. At year-end a follow-up well was directionally drilling northwards from the same island. During 1981 Norcen will participate to its 8% working interest in an exploratory well to be drilled from a drillship on the North Issungnak structure. Drilling should also resume at the Kilannak well in which the company has a small interest.

International

During the year Norcen participated in five wells outside North America. One well in the North Sea was drilled and abandoned and one well offshore Northwest Australia was suspended at a depth of 13,322 feet due to high pressure gas in fractured shales. It is planned to re-enter this well at a later date and drill ahead to the primary objective.

At year-end, two exploratory wells were drilling in Tunisia and one offshore Gabon.

The Gabon well is located on a 1.4 million acre farmin in which Norcen will earn an 11% working interest. Further wells are planned for 1981 in the North Sea, Gabon and Tunisia.

United States

Oil and gas expenditures in the United States amounted to $3.8 million in 1980. The company participated in the drilling of 17 gross (2.8 net) wells that resulted in 6 oil completions and 3 gas completions. The successful wells include oil discoveries in New Mexico, Wyoming and Texas and gas discoveries in Louisiana and Colorado.

The company holds 491,000 gross (122,000 net) acres in the United States. An exploration office has been opened in Denver, Colorado and Norcen intends to expand its U.S. exploration activities in 1981.

Minerals and coal

During 1980, Norcen participated in 14 joint venture mineral exploration programs in various parts of Canada. The company now holds aggregate land holdings in both base metals and uranium properties of 147,000 acres.

Norcen, through its subsidiary Coleman Collieries, produced 619,212 short clean tons of coal prior to shutting down mining operations in July, 1980. In May, 1980 a conditional agreement was negotiated to supply the Japanese market with thermal coal to be produced from waste piles, on which feasibility tests and studies are being conducted.

Norcen continued an active coal exploration program with emphasis on the acquisition of coal rights in Western Canada. In the Chip Lake area of west central Alberta 83,000 acres were acquired and 74,000 acres are under application. The company now owns 108,000 net acres of coal rights.

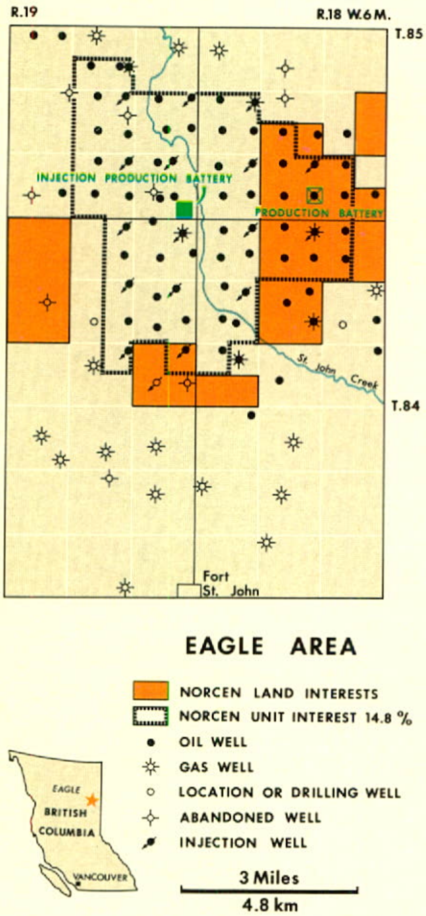
Land

Oil and gas landholdings at December 31, 1980 totalled 4.8 million net acres in Canada and 2.3 million net acres in international areas including the United States.

Oil and Gas Land Holdings
(thousands of acres)
December 31, 1980

	Leases		Reservations, permits, concessions and licences		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Alberta	5,489	2,216	733	337	6,222	2,553
British Columbia	1,219	226	257	69	1,476	295
Saskatchewan	260	113	7	2	267	115
Manitoba	73	21			73	21
Ontario	8	1	2	2	10	3
Canadian Frontier						
Arctic	147	47	4,182	787	4,329	834
Beaufort Sea	35	3	2,443	255	2,478	258
Yukon			1,620	648	1,620	648
North West Territories	73	14	155	32	228	46
Offshore East Coast	54	4	213	71	267	75
	7,358	**2,645**	**9,612**	**2,203**	**16,970**	**4,848**
International						
United States	491	122			491	122
North Sea (U.K.)	278	36			278	36
Adriatic			144	32	144	32
Guyana			2,138	534	2,138	534
Gabon			1,435	158	1,435	158
Tunisia			2,719	362	2,719	362
Australia			5,801	1,018	5,801	1,018
	769	158	12,237	2,104	13,006	2,262
	8,127	**2,803**	**21,849**	**4,307**	**29,976**	**7,110**

In addition to the above, royalty interests are held in 2.1 million gross acres and net carried interests in 236,000 gross (12,000 net) acres.



EAGLE AREA

DEVELOPMENT AND PRODUCTION

Development

During the year, Norcen participated in 134 gross (45.6 net) development wells. Expenditures of $50.1 million were made to maintain production from existing oil and gas fields and to develop reserves not previously connected to market, compared with $16.9 million in 1979. This substantial increase includes $14.5 million for pressure maintenance and development drilling in the West Pembina area and $7.5 million for development of heavy oil properties.

Canadian development wells

	1980		1979	
	Gross	**Net**	Gross	Net
Oil	**62**	**19.6**	37	15.8
Gas	**55**	**18.2**	58	17.8
Dry	**17**	**7.8**	8	4.9
	134	**45.6**	103	38.5

In the Eagle field in northeastern British Columbia, Norcen drilled one additional oil well and the field was unitized with Norcen's interest in the 62 well unit being established at 14.8%. Waterflood facilities have been installed which should double the recoverable reserves.

In the Golden field in north central Alberta, two development wells were completed with each testing in excess of 300 barrels of oil per day. Norcen's share is 50%.

In the Ferrier area of west central Alberta, the company constructed a processing plant and gathering system to deliver up to 20 MMcf of gas and 1,000 barrels of gas liquids per day. Norcen's interest in the project is approximately 25%.

In the West Pembina area, enhanced recovery projects are being installed at two Nisku oil pools and gas cycling facilities are being constructed to recover gas liquids production from a Nisku gas pool. These projects plus planned pressure maintenance of another Nisku oil pool are expected to add more than 3,000 barrels per day to the company's oil and natural gas liquids production by the end of 1981.

Production

Crude oil, synthetic crude oil and gas liquids

Average daily production before royalties was 27,200 barrels compared with 26,000 barrels in 1979, an increase of 5 percent. This increase resulted from acquisitions and development of heavy oil properties in the Provost area and development of the West Pembina and Eagle fields, which more than offset declines in older fields.

The price of western Canadian crude oil increased by $1.00 per barrel on January 1, 1980 and $2.00 per barrel on August 1, 1980. The average price received by the company for crude oil production was $14.98 per barrel compared with $12.84 in 1979.

Revenue from Norcen's oil sands lease increased to $33.7 million from $17.2 million in 1979. This revenue is derived from a royalty interest in the production of synthetic crude from a plant near Fort McMurray, Alberta. Production from the plant for the first ten months received an average selling price of $36.58 per barrel, or approximately the world price. Effective November 7, 1980, however, the National Energy Program reduced the plant selling price to $17 per barrel, substantially the same as that for domestic conventional oil.

Crude oil, synthetic crude oil and gas liquids production

(Barrels per day before royalties)

	1980	1979
Alberta		
Countess Lathom	**3,268**	3,348
Pembina	**3,057**	3,166
West Pembina	**1,829**	1,243
Golden	**1,388**	1,413
Swan Hills	**849**	912
Joarcam	**618**	685
Harmattan	**521**	565
Bigoray	**370**	733
Provost (Hamilton Lake)	**363**	435
Turner Valley	**301**	311
Others	**3,531**	4,063
Heavy Oil	**2,047**	350
Synthetic Crude	**2,656**	2,162
Gas Liquids	**3,031**	3,330
	23,829	22,716
Saskatchewan		
Weyburn	**458**	446
Royalty Interest	**603**	636
Others	**970**	1,010
	2,031	2,092
British Columbia		
Eagle	**884**	633
Peejay	**246**	270
Others	**208**	241
	1,338	1,144
Totals	**27,198**	25,952

Natural gas

Gas production before royalties averaged 149.7 MMcf per day compared with 169.0 MMcf per day in 1979. This decrease was primarily due to a lower export demand for natural gas.

As a result of wellhead price increases on February 1 and September 1, 1980 and export price adjustments during the year, the average price received for gas sold was $2.23 per Mcf compared with $1.59 per Mcf in the preceding year.

Natural gas production

(MMcf per day before royalties)

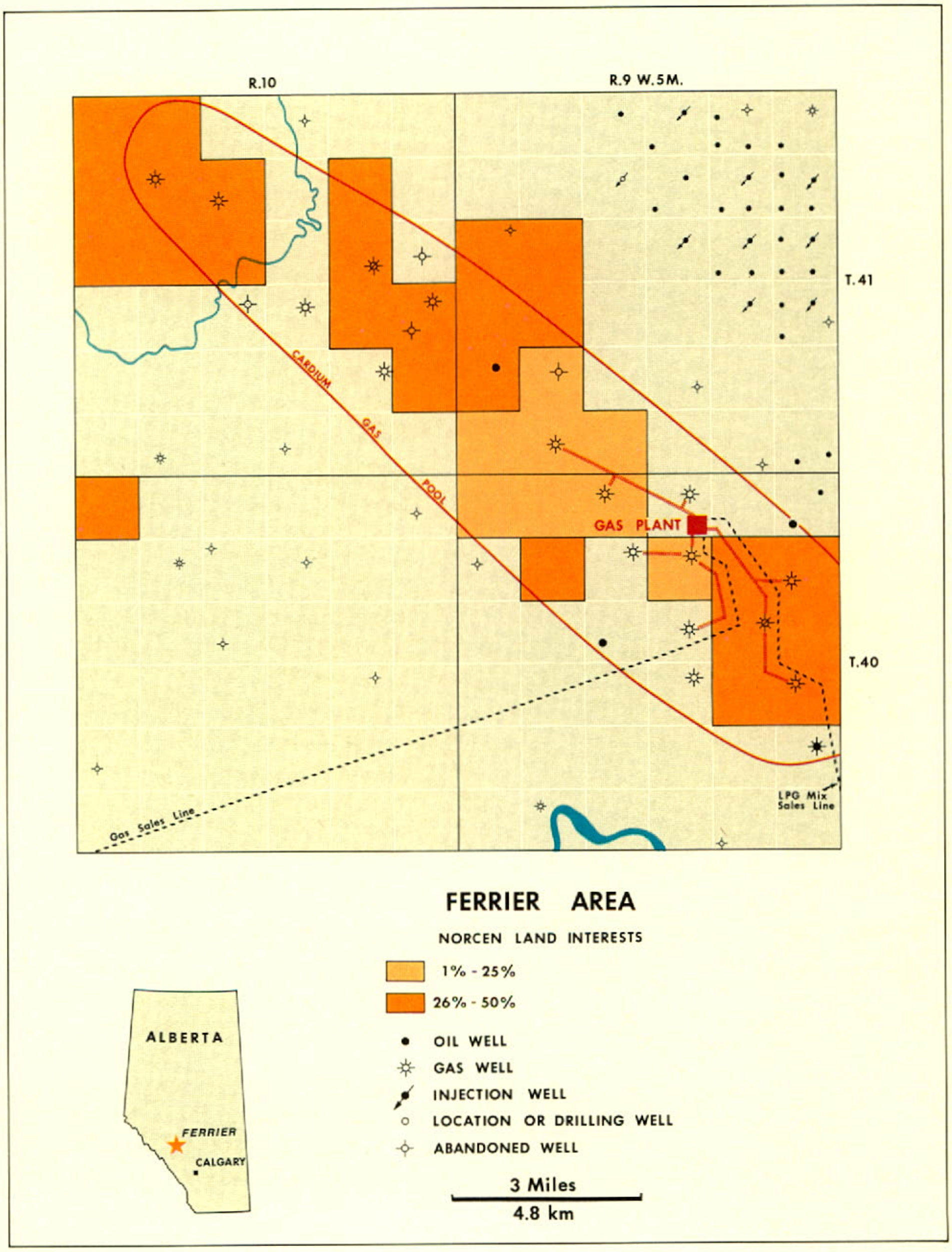
	1980	1979
Alberta		
Minnehik	**20.4**	23.0
Westlock	**17.1**	16.8
Harmattan	**12.0**	12.2
Crossfield	**9.6**	11.9
Verger	**5.7**	5.4
Bindloss	**4.1**	3.7
Ghost Pine	**4.0**	5.1
Bruce	**3.9**	5.1
Big Bend	**3.8**	4.0
Nevis	**3.7**	5.1
Others	**53.7**	65.6
	138.0	157.9
British Columbia		
Jedney–Bubbles–East Laprise	**5.3**	6.8
Others	**6.4**	4.3
	11.7	11.1
Totals	**149.7**	169.0

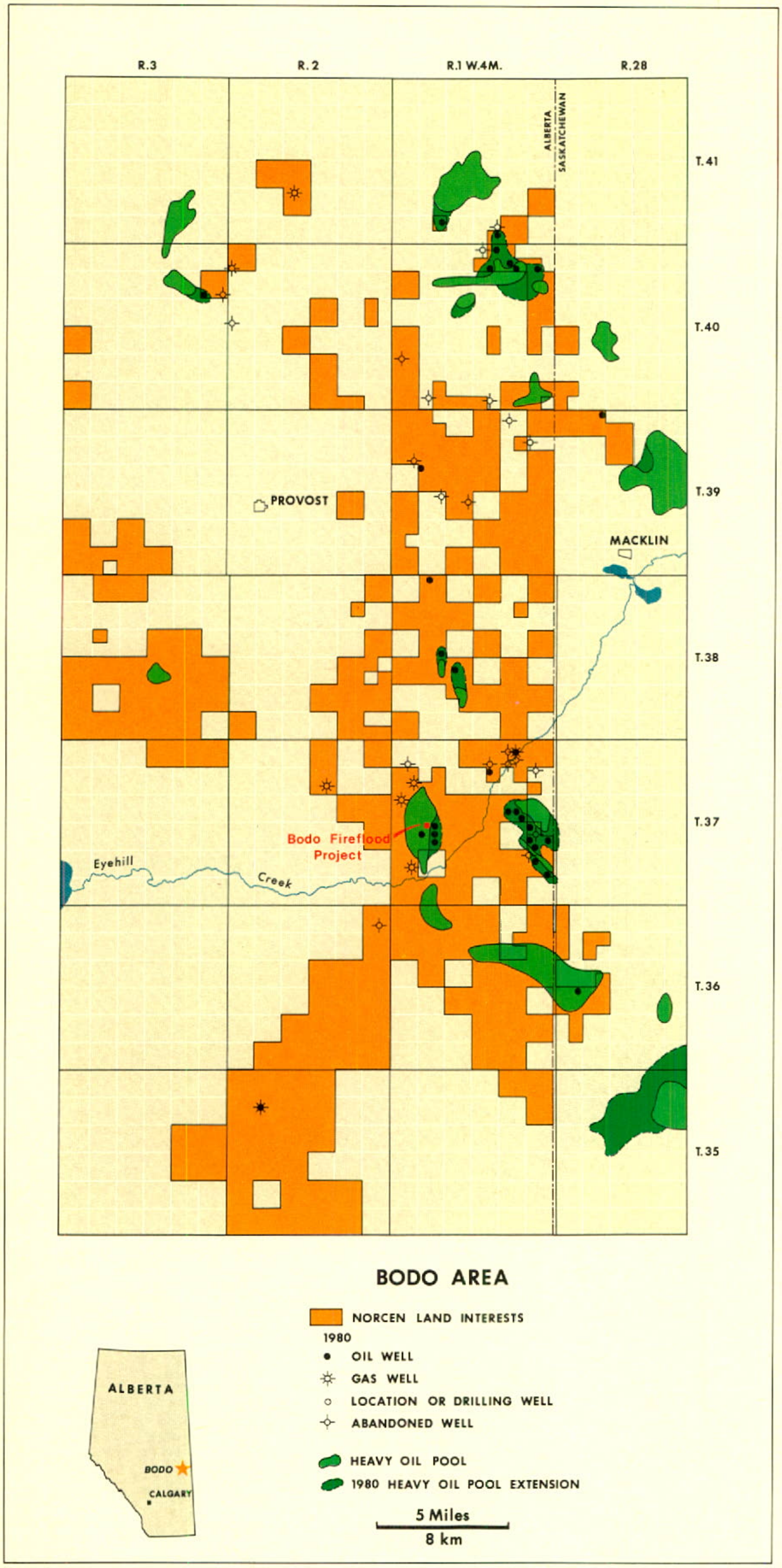
Heavy oil

During the year, an aggressive program of exploration and development drilling was conducted on the company's heavy oil properties. Norcen participated in 39 gross (18.5 net) exploratory wells and 42 gross (22.1 net) development wells in heavy oil areas. This drilling resulted in 36 gross (16.5 net) oil wells and 16 gross (9.5 net) gas wells. The accompanying map highlights the Bodo area of eastern Alberta, Norcen's most active heavy oil drilling area.

Production of heavy oil increased from 350 barrels per day in 1979 to 2,047 barrels per day in 1980. This substantial increase is due to the heavy oil acquisitions made in late 1979 and early 1980 combined with production of approximately 300 barrels per day gained from the successful wells drilled in heavy oil areas during the year.

The experimental in-situ combustion or fireflood project in the main Bodo Pool continued with positive results.





Performance of the project, with the production rate at year-end double that of a year ago, has given strong encouragement for expansion in 1981. Pricing proposals for tertiary recovery contained in the National Energy Program, if implemented quickly and without administrative complexities, will provide more appropriate economic incentive for the large investments which are necessary in this relatively high-risk area.

Reserves

Estimated reserves, before royalties, of crude oil, synthetic crude and gas liquids at December 31, 1980 were 122.1 million barrels compared with 129.0 million barrels at the end of the previous year. Estimated reserves of natural gas, before royalties, were 1,127.4 billion cubic feet, compared with 1,144.9 billion cubic feet at the end of the previous year.

These figures do not include Norcen's share of reserves of natural gas in the Arctic, Beaufort Sea, the North Sea and oil sands reserves at Cold Lake, Alberta.

Industrial gas system

The average daily throughput of the system located near Edmonton, Alberta was 54 MMcf per day in 1980 compared with 55 MMcf per day for the previous year. Additional drilling and compression installation in the Westlock Unit offset the natural decline in field productivity. The average gas price paid by the Industrial Gas System customers increased to $0.49 per Mcf in 1980 from $0.33 the previous year.

Liquefied petroleum gas

Sales of LP gas were 62.8 million Imperial gallons, compared with 78.9 million Imperial gallons in 1979.

Oil gathering and transmission

An average of 70,400 barrels per day was transported through the company's systems in 1980, compared with 73,900 barrels per day in 1979. Proven and probable reserves supporting these systems are estimated at 568 million barrels.

Natural gas supply to one of Northern and Central Gas Corporation's largest industrial customers

Gas Utilities

Highlights

- 14,000 new customers added in Quebec, Ontario and Manitoba.
- Capital expenditures in Quebec, Ontario and Manitoba of $59.6 million, up 42% from $42.1 million in 1979.
- Income of $15.8 million compared with $16.3 million in 1979.
- Reduction of voting interest in Gaz Métropolitain, inc. from 72% to 49%.

Ontario

Sales volumes were 123.6 Bcf compared with 125.4 Bcf in 1979. Higher firm sales were offset by lower interruptible volumes to large industrial customers. Construction activity in 1980 resulted in capital expenditures of $24.7 million, a 41% increase over 1979. 8,000 new customers were added in 1980 compared with 4,300 in 1979 and this trend of attaching an increasing number of new customers is expected to continue. Gas service commenced in 10 communities in 1980 and new service is planned for 9 communities in 1981.

Manitoba

Sales volumes were 49.3 Bcf compared with 53.8 Bcf in 1979. The decline was due to much warmer weather during the year. In 1980 3,700 new customers were connected and distribution service was extended to Iles des Chênes. In 1980 over 90% of all new residential construction units installed natural gas.

Quebec

Sales volumes were 95.6 Bcf compared with 90.7 Bcf in 1979. Firm sales increased by over 11.0 Bcf, or an increase of 17.6%, while interruptible sales were lower. Construction activity in 1980 resulted in capital expenditures of $29.3 million, a 17% increase over 1979. Hearings have been completed before the Electricity and Gas Board of Quebec concerning construction of natural gas distribution systems into areas of the province not now being served. Gaz Métropolitain anticipates a favourable decision by the Board in this regard in the near future.

Regulation

The regulatory authorities in each jurisdiction approved rate adjustments to recover higher gas costs which became effective February 1, 1980 and September 1, 1980. In addition, rate adjustments were approved to recover the new federal tax on natural gas which became effective November 1, 1980. The following table summarizes the rates of return approved by the regulatory authorities and presently in effect.

	Allowed Rate of Return		
	on Rate Base %	on Common Equity %	Test Year
Gaz Métropolitain	10.90	17.0	1978
Northern and Central Gas	10.47	14.1	1977
Greater Winnipeg Gas	11.62	14.1	1979

Northern and Central Gas has filed an application to increase rates to recover higher costs of capital and of operations incurred since the last test year, and hearings are expected to commence in the near future.

Greater Winnipeg will file an application in the spring of 1981 to increase rates to recover higher costs incurred since the last test year.

Gas supply

Total contracted gas supply at year-end was 893 MMcf per day compared with 865 MMcf per day at the end of last year. With a substantial surplus of natural gas in Western Canada, the federal government has announced incentives to encourage greater use of domestic natural gas to displace higher cost imported oil. As a result, demand for natural gas is increasing and Norcen is planning expansion of its systems.

Capital expenditures

Capital expenditures in 1980 were $59.5 million compared with $42.1 million in 1979, including $29.3 million and $25.1 million respectively by Gaz Métropolitain. Expenditures for 1981 in Ontario and Manitoba are projected at $48 million, of which $25.9 million is for new business, including conversions to natural gas. In Quebec, Gaz Métropolitain has budgeted 1981 capital expenditures of $64.7 million.

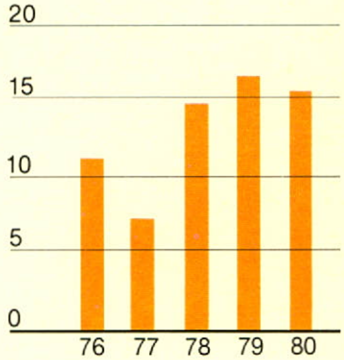
Financing

In July 1980 Northern and Central Gas sold to four Quebec-based institutions $26 million principal amount of 10 year 12% debentures exchangeable by the holders into 3¼ million common shares of Gaz Métropolitain owned by Northern and Central Gas. Debenture holders have the right to vote such common shares and accordingly Northern and Central Gas reduced its voting interest in Gaz Métropolitain from 72.5% to 49.3%.

Later in 1980 Northern and Central Gas agreed in principle to issue to Caisse de dépôt et placement du Québec $55 million principal amount of 7½ year 13% debentures exchangeable into its remaining 49.3% voting interest in Gaz Métropolitain; this transaction, which will provide full voting control of Gaz Métropolitain within the province of Quebec, is expected to be completed in March 1981.

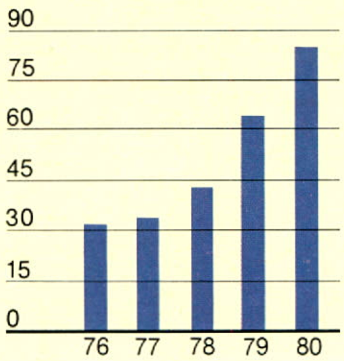
In December Gaz Métropolitain sold $25 million principal amount of first mortgage bonds and $20 million principal amount of convertible debentures with the proceeds being applied to reduce its short term debt.

Gas Utilities Income
(millions of dollars)

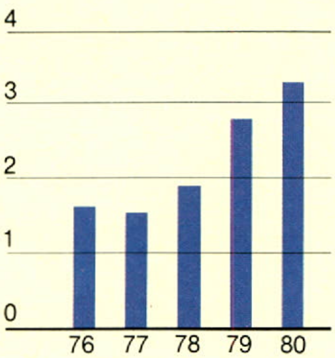


Management's Discussion and Financial Review

Income Applicable to Common Shares
(millions of dollars)



Earnings per Common Share
(dollars)



Revenue and expenses

Income applicable to common shares increased 32.3% in 1980 to $83.5 million or $3.16 per common share from $63.1 million or $2.70 per common share in 1979. This follows an increase in 1979 of $20.6 million or 48.4% from $42.5 million, $1.86 per common share in 1978. Return on average common share equity was 23.1% in 1980 compared with 23.7% in 1979 and 19.3% in 1978.

Funds provided from operations increased $40.1 million or 30.5% to $171.7 million in 1980 over $131.6 million in 1979. Comparatively 1979 was up $43.8 million, 49.8% from $87.8 million in 1978.

As explained in Note 2(a) to the Consolidated Financial Statements, the reduction in Norcen's interest in Gaz Métropolitain, inc., has been reflected by restatement of the financial statements to account for Gaz Métropolitain, inc. by the equity method. While this restatement has had no effect upon net income or shareholders' equity it has changed revenues, expenses, assets and liabilities from those previously reported. The following discussion is based on the financial accounts as restated.

1980 compared with 1979

Sales and other revenues increased $103.2 million or 16% over 1979. Sales revenues from natural resources were up $57.3 million primarily reflecting price increases of $1 per barrel of crude oil on January 1 and $2 per barrel on August 1, 1980 and related increases of 15¢ per Mcf of natural gas on February 1 and 30¢ per Mcf on September 1, 1980. Additionally, Norcen's bitumen synthetic crude oil royalty increased substantially as a result of a higher base price and increased production.

Sales and other revenues from gas utilities were up $45.9 million mainly reflecting natural gas price increase pass-ons.

Gas purchase costs also increased in 1980 due to the price increases at the wellhead noted above. Production operations and maintenance costs continued to rise due to inflationary pressures, the higher costs to produce additional volumes of crude oil, particularly heavy crude oil, and higher costs to maintain producibility in existing fields.

Financial expense increased $3.6 million as a result of an increase of $22 million in average short term borrowings during the year together with a higher average interest rate of 13.4% compared to 12.6% in 1979.

The increase in depreciation and depletion results from increased capital expenditures in the last few years and the full year effect of acquisitions made in 1979. The depletion rate per equivalent barrel rose to $1.55 in 1980 from $1.33 in 1979. Income taxes increased as explained in detail in Note 10 to the Consolidated Financial Statements.

1979 compared with 1978

Sales and other revenues increased $84.8 million or 15.2% in 1979 compared to $559 million in 1978.

Natural resource sales and other revenues, principally crude oil and natural gas sales, increased 28% over 1978 sales of $163.0 million, as a result of higher production of conventional crude oil, bitumen synthetic crude oil and natural gas together with higher prices at the wellhead. An increase in production of crude oil resulted from development of new fields and higher demand which more than offset declines in older fields. The crude oil price increase of $1 per barrel on July 1, 1979 together with the increase to world price from the beginning of April, 1979 for synthetic crude oil production from the Suncor plant added $13.0 million to revenues. Natural gas revenues increased due to an acquisition in early 1979, higher demand for natural gas and higher price levels.

Gas burners behind this giant fan heat outside air drawn into the mine shaft at another of Northern and Central Gas Corporation's large industrial customers

Gas utilities revenue increased by $39 million in 1979 primarily due to an increase in average selling price as regulatory boards granted increases to recover higher gas purchase prices. Higher volumes delivered to large industrial interruptible customers across the franchised areas were offset in part by a reduction from normal volumes of industrial firm sales, and by the effects of conservation and of an average 5% warmer weather.

Cost of gas and expenses throughout the year, as was the case during 1978, continued to be influenced by gas price levels. Natural resource and gas utility operating and administrative expenses increased as the result of acquisitions of oil and gas properties and the continuing inflationary effect on all expenses.

There was a $2 million reduction in interest on long-term debt in 1979 due to retirements. The average interest rate during 1979 on short-term borrowings rose to 12.6% from 9.3% per annum in 1978 on higher average short term borrowings.

Depreciation and depletion increased as the result of increased capital expenditures. Natural resource depletion expense increased $6.3 million representing a higher depletion rate per equivalent barrel of $1.33 in 1979 as compared to $1.13 in 1978 principally due to acquisitions of oil and gas properties and increased finding costs. Income taxes increased by $8.6 million for the reasons set out in detail in Note 10 to the Consolidated Financial Statements.

Extraordinary items in 1979 were a charge of $3,079,000 resulting from an adjustment of the carried value of Northern and Central Gas Corporation Limited's investment in Gaz Métropolitain, inc. due to the issue of additional common shares and a credit of $1,325,000 arising from a reduction in income taxes due to the application of a discontinued gas utility subsidiary's prior years' losses.

Balance sheet

The gross assets of the company have continued to grow to $1,222.9 million in 1980, an increase of $177.6 million in 1980 and $158.7 million in 1979. This growth is mainly attributable to a significant capital expenditure program during the period of $218.6 million in 1980, $189.6 million in 1979 and $75.6 million in 1978 including natural resource acquisitions. The capital expenditure program reflected one of the company's primary objectives of establishing a significant position in heavy oil reserves.

Short and long-term debt

Long-term debt outstanding has declined during the past three years from $357.4 million in 1978 to $342 million in 1980. The equity to debt ratio has correspondingly increased from 1:1.4 in 1978 to 1:0.7 at the end of 1980.

The major change in long-term debt was the issue of debentures by Northern and Central Gas Corporation Limited in 1980 which generated proceeds of $26 million and the reduction of long-term debt through operation of sinking funds. The proceeds of the debenture issue were used to fund capital expenditures.

Shareholders' equity

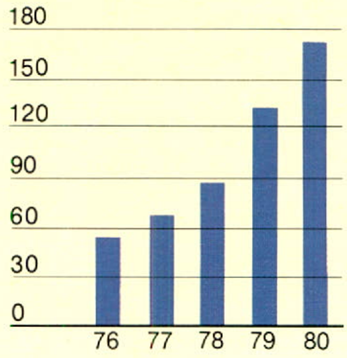
Shareholders' equity increased by $152 million in 1979 to $407.1 million at the end of the year. In 1980, there was a further increase of $59.7 million to $466.8 million at the end of 1980.

The increase in 1980 is primarily attributable to the year's activities after payment of dividends. Of the increase in 1979, $43.4 million represents the year's activities after payment of dividends and $105.8 million arises from the issue of convertible preference shares.

Financial position

The funds position of the company declined $10.2 million in 1980 and $0.6 million in 1979 compared to an increase of $3.5 million in 1978. While annual generation of funds from operations doubled over the period, the increase was more than offset by greatly increased annual capital expenditures.

Funds from Operations
(millions of dollars)



Financial Statements

Years ended December 31, 1980, 1979 and 1978

Accounting policies

The Annual Report and the accompanying financial statements have been prepared by Management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and comply with United States' disclosure requirements. The principles used were those judged by Management to be the most appropriate in the circumstances. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the Annual Report including the financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Norcen and all of its subsidiaries except Gaz Métropolitain, inc. and Coleman Collieries Limited, which have been accounted for on the bases set out in Note 2 to the consolidated financial statements.

The companies' operations are organized into two classes of business namely, natural resources and gas utilities.

The excess of acquisition costs over underlying value of net assets at date of purchase in respect of natural resource subsidiaries has been included in property costs and is being charged to income in a manner similar to the particular property costs. The excess costs in respect of gas utility subsidiaries are included in "Other assets" and are not being amortized.

Foreign currency translation

Amounts in foreign currency have been translated to Canadian dollars on the following bases: current assets and current liabilities, at the rate of exchange as at the balance sheet date; properties, plant and equipment and related depreciation and depletion, at the rate of exchange at the date of acquisition; long-term debt, at the rate of exchange at the date the obligation was incurred; sales and other revenues and costs and expenses, at the average rate of exchange for the respective year.

Inventories

Gas in storage is carried at cost which includes transportation and storage. Supplies are carried at the lowest of historic cost, replacement cost and net realizable value.

Properties, plant and equipment
Natural resources

Oil and gas properties, in accordance with the full cost method of accounting, include all expenditures related to the exploration and development of oil and gas reserves, whether or not potentially productive, together with the excess of acquisition cost over underlying value of net assets at date of purchase. These costs are depleted on the composite unit of production method based on total estimated proven recoverable reserves.

Oil and gas production equipment and related facilities are depreciated over their estimated useful service life on the straight-line method at various rates, the application of which is equivalent to a composite rate of approximately 6.30% (5.28% in 1979, 5.32% in 1978).

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

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

Gas utilities

Properties, plant and equipment are carried at cost which includes direct costs, overhead attributable to construction and interest on funds used during construction.

Depreciation is provided on the straight-line method at rates approved by regulatory authorities. The application of such rates is equivalent to a composite rate of approximately 2.80% (2.74% in 1979, 2.75% in 1978).

The original cost of property retired is removed from plant accounts and charged to accumulated depreciation, which is credited with the salvage proceeds less removal cost. Under this method, no profit or loss is recognized on ordinary retirements of depreciable property.

Maintenance, repairs and minor renewals are charged to maintenance expense accounts. Renewals and betterments of property are capitalized.

Deferred charges

Costs of issuing long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The gas utilities defer, in the year incurred, certain expenses which the regulatory authorities require or permit to be recovered from future revenues; such charges are being amortized over various time periods.

Regulation

Gas utilities rates and revenues are established following public hearings before the respective provincial and federal regulatory authorities. From time to time the authorities grant provisional rate increases which may be subject to refund to customers depending upon the decision of the authorities following a full public hearing. The companies believe that no such refunds will be required.

Income taxes
Natural resources

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

Gas utilities

The companies' rates and revenues, established for regulatory purposes, include recovery of only such income taxes as are currently payable. Accordingly, the companies provide for income taxes on this basis and do not provide for income taxes which may be payable in future years as a result of current differences in timing of deductions, principally in respect of depreciation and amortization, for financial reporting and income tax purposes. Such income taxes not provided and not recovered in revenues, before applicable minority interests, amounted to $3,700,000 in 1980, ($2,000,000 in 1979, $2,300,000 in 1978), and $49,400,000 in total to December 31, 1980.

Deferred gas revenues

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

Pension plans

The companies have several pension plans covering most employees. Current costs are provided for, and funded, based upon actuarial estimates. Unfunded liabilities for past service pension benefits, which are not material, are being funded and expensed over a maximum period of 15 years.

Earnings per common share

Earnings per common share have been calculated using the weighted monthly average number of common shares outstanding during the year (26,447,000 in 1980, 23,396,000 in 1979, 22,803,000 in 1978). Fully diluted earnings per common share assumes the exercise of all rights to acquire common shares which have a dilutive effect.

In the calculation of earnings per common share, the weighted average number of common shares under the United States method does not differ by more than 3% from the Canadian method.

Consolidated Statement of Income

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

	1980	1979 (Restated Note 2 (a))	1978 (Restated Note 2 (a))
Sales and other revenues			
Natural resources	**$266,108**	$208,787	$163,052
Gas utilities	**480,834**	434,953	395,919
	746,942	643,740	558,971
Costs and expenses			
Gas purchases	**420,416**	371,585	340,169
Production, operations and maintenance	**106,810**	87,822	73,740
Depreciation and depletion	**45,288**	37,394	30,634
Interest on long-term debt	**36,637**	36,849	38,862
Other financial expense	**10,581**	6,964	3,656
Income taxes (Note 10)	**44,571**	39,637	31,058
Minority interests in subsidiaries	**3,865**	3,738	3,727
	668,168	583,989	521,846
	78,774	59,751	37,125
Equity in earnings of Gaz Métropolitain, inc. (Note 2 (a))	**7,109**	7,140	6,714
Income before extraordinary items	**85,883**	66,891	43,839
Extraordinary items (Note 11)		1,754	
Net income	**$ 85,883**	$ 65,137	$ 43,839
Dividends on preference shares	**$ 2,391**	$ 3,808	$ 1,324
Income applicable to common shares			
Before extraordinary items	**$ 83,492**	$ 63,083	$ 42,515
Including extraordinary items	**$ 83,492**	$ 61,329	$ 42,515
Earnings per common share			
Before extraordinary items			
Basic	**$ 3.16**	$ 2.70	$ 1.86
Fully diluted	**$ 3.05**	$ 2.58	$ 1.82
Including extraordinary items			
Basic	**$ 3.16**	$ 2.62	$ 1.86
Fully diluted	**$ 3.05**	$ 2.51	$ 1.82

Consolidated Balance Sheet

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

			1980	1979 (Restated Note 2(a))
Assets	**Current assets**	Cash and deposits	**$ 5,510**	$ 2,839
		Accounts receivable and unbilled gas	**125,664**	97,282
		Inventory of gas in storage and supplies	**22,441**	15,934
		Total current assets	**153,615**	116,055
	Investments (Note 4)		**185,388**	218,135
	Properties, plant and equipment (Note 5)		**866,191**	693,276
	Other assets		**17,745**	17,919
			$1,222,939	$1,045,385
Liabilities	**Current liabilities**	Accounts payable and accrued charges	**$ 129,420**	$ 93,290
		Income and other taxes	**8,378**	201
		Current maturities on long-term debt	**18,538**	15,067
		Current liabilities, excluding demand bank credits	**156,336**	108,558
		Demand bank credits (Note 6)	**85,904**	67,033
		Total current liabilities	**242,240**	175,591
	Long-term debt (Note 7)		**341,991**	334,305
	Deferred gas revenues		**15,553**	8,348
		Total liabilities	**599,784**	518,244
	Deferred income taxes		**110,613**	73,518
	Minority interests in subsidiaries (Note 8)		**45,785**	46,536
Shareholders' equity	**Capital stock** (Note 9(a))			
	Issued First preference shares	1,765 $1.06 cumulative redeemable series A (2,058 in 1979)	**44**	52
		149,408 $1.50 cumulative redeemable series B (163,007 in 1979)	**3,735**	4,075
	Junior preference shares	745,752 $2.88 cumulative convertible redeemable 1979 series (2,161,150 in 1979)	**36,542**	105,896
	26,659,794	common shares (24,084,210 in 1979)	**230,733**	159,743
	Retained earnings (Note 9(b))		**195,703**	137,321
		Total shareholders' equity	**466,757**	407,087
			$1,222,939	$1,045,385

Consolidated Statement of Retained Earnings

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

		1980	1979	1978
Balance at beginning of year		**$137,321**	$ 93,935	$ 68,378
Net income		**85,883**	65,137	43,839
		223,204	159,072	112,217
Dividends				
First preference shares	–series A	**2**	3	3
	–series B	**232**	280	333
Junior preference shares	–first series		631	988
	–1979 series	**2,157**	2,894	
Common shares		**25,094**	17,731	16,414
Other		**16**	212	544
		27,501	21,751	18,282
Balance at end of year		**$195,703**	$137,321	$ 93,935

Approved by the Board

Director

C. G. Battle

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, 1980 and 1979 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years ended December 31, 1980. 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, 1980 and 1979 and the results of its operations and the changes in its financial position for each of the three years ended December 31, 1980 in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell

Chartered Accountants

Toronto, Canada
February 3, 1981

Consolidated Statement of Changes in Financial Position

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

	1980	1979 (Restated Note 2 (a))	1978
Source of funds			
Income before extraordinary items	**$ 85,883**	$ 66,891	$ 43,839
Items not requiring an outlay of funds			
Minority interests in subsidiaries	**3,865**	3,738	3,727
Deferred income taxes	**37,095**	24,211	9,758
Depreciation and depletion including amounts charged to other expense accounts	**45,723**	37,054	31,013
Amortization of finance expense and other deferred charges	**1,477**	1,420	1,654
Equity earnings in excess of dividends received	**(2,349)**	(1,707)	(2,153)
From operations	**171,694**	131,607	87,838
Deferred gas revenues	**7,205**	4,770	3,578
Increase in demand bank credits, net	**18,871**	3,414	26,648
Issue of long-term debt	**26,000**		20,000
Issue of preference shares		105,790	
Issue of common shares	**1,636**	2,106	573
Proceeds on disposal of a subsidiary		4,065	
Investments	**35,096**		
	260,502	251,752	138,637
Application of funds			
Expenditures on properties, plant and equipment, net	**218,638**	189,645	75,602
Retirement of long-term debt	**18,314**	19,771	28,051
Dividends	**27,485**	21,539	17,738
Dividends to minority shareholders of subsidiaries	**2,992**	3,110	3,137
Investments		7,806	7,929
Redemption of preference shares	**348**	1,284	690
Current portion of provision for costs of discontinued operations		8,048	
Other	**2,943**	1,105	2,007
	270,720	252,308	135,154
Increase (decrease) in funds	**$ (10,218)**	$ (556)	$ 3,483
Changes in components of funds are represented by:			
Cash and deposits	**$ 2,671**	$ (1,213)	$ (4,251)
Accounts receivable and unbilled gas	**28,382**	10,195	14,121
Inventory of gas in storage and supplies	**6,507**	(648)	2,682
Accounts payable and accrued charges	**(36,130)**	(17,590)	(10,843)
Income and other taxes	**(8,177)**	4,079	(1,058)
Current maturities on long-term debt	**(3,471)**	4,621	2,832
Increase (decrease) in funds (Note 6)	**$ (10,218)**	$ (556)	$ 3,483

Notes to Consolidated Financial Statements

(Tabular amounts are in thousands of dollars)

1. Accounting policies
The information on pages 19 and 20 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2. Unconsolidated companies
(a) *Gaz Métropolitain, inc. ("GMi")*

On July 3, 1980, Northern and Central Gas Corporation Limited ("N&C"), a gas utility subsidiary, sold $26 million principal amount of 12% exchangeable subordinated debentures due 2000. The debenture holders have the right to exchange the debentures at any time until 1990 into 3.25 million common shares of GMi owned by N&C and have the right to vote such common shares during the exchange period and prior to exercising their right of exchange. As a result of this financing, the voting interest of N&C in GMi was reduced from 72.5% to 49.3%.

Effective July 3, 1980, Norcen discontinued the inclusion of the accounts of GMi in its consolidated financial statements and adopted the equity method of accounting for its 49.3% common share interest and the cost method of accounting for the 3.25 million common shares subject to the exchange rights. Accordingly, the assets and liabilities of GMi have not been included in the consolidated balance sheet of Norcen as at December 31, 1980. Norcen's equity in the earnings of GMi for the year ended December 31, 1980 has been shown separately in the consolidated statement of income. The dividends attributable to the common shares subject to the exchange rights and preference share dividends have been included in the equity in earnings of GMi.

The consolidated financial statements of Norcen for the years ended December 31, 1979 and 1978 have been restated to conform with the 1980 presentation. Such restatement had no effect on consolidated net income or shareholders' equity.

On December 5, 1980, N&C and Caisse de dépôt et placement du Québec ("Caisse") entered into an agreement in principle whereby N&C would sell to Caisse $55,016,392 principal amount of 13% exchangeable subordinated debentures redeemable in 1988. Caisse would have the right to exchange the debentures at any time during the period into 6,877,049 common shares of GMi owned by N&C and have the right to vote such common shares during the exchange period and prior to exercising their right of exchange. In redeeming the debentures, N&C has the option of paying the redemption price either in cash or by tendering the 6,877,049 common shares of GMi subject to the exchange right. The agreement, which is conditional upon the receipt of various approvals, is expected to close no later than March 31, 1981. On the completion of this financing, N&C will no longer have a voting interest in GMi.

A condensed balance sheet of GMi is as follows:

	December 31	
	1980	1979
Current assets	**$ 75,702**	$ 57,874
Property, plant and equipment	**245,572**	224,876
Other assets	**23,180**	22,079
	$344,454	$304,829
Due to N&C	**$ 7,366**	$ 36,633
Other current liabilities	**46,188**	41,395
Long-term debt–N&C	**80,564**	84,979
–Other	**99,802**	34,035
	233,920	197,042
Shareholders' equity	**110,534**	107,787
	$344,454	$304,829

Norcen's equity in the retained earnings of GMi of $27,802,000 is $13,697,000.

Summarized operating results for GMi are as follows:

	Year ended December 31		
	1980	1979	1978
Gross revenues	**$309,521**	$254,706	$227,217
Costs and expenses	**299,458**	245,369	219,475
Income	**$ 10,063**	$ 9,337	$ 7,742
Norcen's equity in earnings including preference dividends	**$ 7,109**	$ 7,140	$ 6,714
Common dividends received	**$ 3,038**	$ 3,650	$ 3,251

(b) *Coleman Collieries Limited ("Coleman")*

In accordance with a decision made in 1977, Coleman ceased mining operations in 1980 on the termination of its metallurgical coal sales contracts. All costs anticipated to be incurred by Coleman and Norcen on the discontinuance of Coleman's operations together with mining development costs incurred but not expected to be recovered from operations by 1980, were charged as an extraordinary item in the 1977 consolidated statement of income. Included in this charge was $8,048,000 being Norcen's estimate of cost to be incurred by it on closure. This estimate, which management feels is adequate, is included in accounts payable and accrued charges.

Coleman is currently testing the feasibility of rewashing coal refuse to produce thermal coal for sale to a foreign customer under a letter of intent.

The assets, liabilities and results of operations of Coleman have not been included in Norcen's financial statements since 1977 for the reasons stated above.

A condensed balance sheet of Coleman is as follows:

	December 31	
	1980	1979
Current assets	**$ 6,246**	$ 9,047
Mining assets	**5,368**	10,960
Other assets	**87**	1,696
	$11,701	$21,703
Bank loans		$10,520
Other current liabilities	**$ 6,592**	12,616
Other liabilities	**1,443**	4,790
	8,035	27,926
Shareholders' equity (deficit)	**3,666**	(6,223)
	$11,701	$21,703

Summarized operating results for Coleman are as follows:

	Year ended December 31		
	1980	1979	1978
Gross revenues	**$38,344**	$51,828	$56,852
Costs and expenses[1]	**28,455**	49,934	56,565
Income	**$ 9,889**	$ 1,894	$ 287

[1] Includes $1,347,000 recovery in 1980 and $3,553,000 charge in 1979 resulting from adjustment of asset values and closure costs anticipated to result from cessation of operations.

3. Acquisition

Pursuant to an offer made October 12, 1979, Norcen acquired in 1979 and early 1980 all the issued shares of Canadian Hidrogas Resources Ltd. for a cash consideration of $46,638,000. On consolidation, its earnings have been included from January 1, 1980 and the purchase consideration has been assigned as follows:

Current assets		**$ 9,173**
Natural resource properties and equipment (including $38,400 excess of consideration over book value of net assets)		**56,522**
Other assets		**68**
		65,763
Deduct		
Current liabilities	**$13,125**	
Long-term debt	**6,000**	**19,125**
Purchase consideration		**$46,638**

Norcen has reclassified from investments to properties, plant and equipment the cost of the shares acquired to December 31, 1979 in the amount of $15,696,000.

4. Investments

	1980	1979
Investment in GMi (Note 2 (a))		
Shares–common[1]	**$ 78,874**	$ 76,446
–preference	**21,530**	22,345
Debt[2]	**80,564**	84,979
Other[2]		30,000
	180,968	213,770
Investment in Coleman, at cost less amounts written off (Note 2(b))		
Debentures	**320**	806
Other investments, at cost	**4,100**	3,559
	$185,388	$218,135

[1] Includes $23,779,000 excess of cost of investment over the underlying book value at the date of acquisition which is not being amortized (Note 2 (a)).
[2] Excludes current maturities of $4,795,000 in 1980 ($4,336,000 in 1979) and other current amounts which are included in accounts receivable.

5. Properties, plant and equipment

	Natural resources	Gas utilities	Total
December 31, 1980			
Cost	**$836,946**	**$332,531**	**$1,169,477**
Accumulated depreciation and depletion	**229,416**	**73,870**	**303,286**
Net	**$607,530**	**$258,661**	**$ 866,191**
December 31, 1979			
Cost	$646,278	$304,951	$ 951,229
Accumulated depreciation and depletion	189,935	68,018	257,953
Net	$456,343	$236,933	$ 693,276

6. Demand bank credits

Norcen and its consolidated subsidiaries have the following obligations under established bank lines of credit of $158,500,000 at December 31, 1980 ($140,000,000 at December 31, 1979):

	Average % rate of interest at December 31		December 31	
	1980	1979	**1980**	1979
Commercial paper	**16.2**	14.0	**$27,050**	$37,900
Bankers' acceptances	**13.9**	14.1	**40,000**	20,000
Bank loans–unsecured	**18.4**	15.0	**18,854**	9,133
			$85,904	$67,033
Natural resources			**$65,529**	$19,408
Gas utilities			**20,375**	47,625
			$85,904	$67,033
Unused lines of credit at December 31:				
Commercial paper[1]			**$22,950**	$ 2,100
Bankers' acceptances				25,000
Bank loans			**49,646**	45,867
			$72,596	$72,967

[1] A standby fee is payable at ¼ of 1% per annum on this line of credit up to $30,000,000 plus ¼ of 1% per annum on the amount used above that amount.

While demand bank credits are by their terms due within one year and therefore classified as current liabilities, the companies have in the past retired, and anticipate in the future retiring, such obligations through the issue of long-term capital.

7. Long-term debt

	1980	1979
Natural resources		
5⅞% first mortgage bonds, 1980		$ 720
9¾%-11¼% secured debentures, 1983-1996	**$50,235**	53,100
10¼%-11¼% secured notes, 1988	**55,044**	60,999
5⅜% income debentures, 1982-1983	**6,000**	
Notes and purchase agreements	**2,465**	2,524
	113,744	117,343
Gas utilities		
5¾%-11⅜% first mortgage bonds, 1981-1998	**147,913**	155,966
9⅝% senior debentures, 1991	**39,746**	40,100
6% subordinated notes, 1987	**2,929**	3,284
5¾%-12% debentures, 1982-2000	**56,310**	32,900
	246,898	232,250
	360,642	349,593
Deduct		
Long-term debt held for sinking fund purposes	**113**	221
Current maturities on long-term debt	**18,538**	15,067
	18,651	15,288
	$341,991	$334,305

Securities issued in U.S. funds mature between 1987 and 1993 and are included above at their Canadian dollar equivalent (1980–$102,966,000, 1979–$112,718,000) at respective dates of issue except for current maturities which are translated at year-end rates. Repayment of such issues in their entirety at rates of exchange prevailing at year-end would result in additional obligations of $18,860,000 at December 31, 1980 ($17,966,000 at December 31, 1979).

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1981 are as follows:

1982–$32,258,000, 1983–$45,619,000, 1984–$25,690,000, 1985–$22,311,000.

Of the $246,898,000 of long-term debt of the gas utilities, $85,359,000 represents amounts owing to N&C by GMi as a result of financings arranged in prior years by N&C for GMi (Note 4).

8. Minority interests in subsidiaries–preference shares

Preference shares in the amount of $39,553,000 at December 31, 1980 ($41,188,000 at December 31, 1979, $42,226,000 at December 31, 1978) are included in minority interests. The dividends paid on these shares were $2,926,000 in 1980, $3,049,000 in 1979 and $3,126,000 in 1978.

9. Capital stock

(a) The authorized capital stock of Norcen at December 31, 1980 consists of 1,300,000 first preference shares without par value issuable in series; unlimited second preference shares without par value issuable in series; unlimited junior preference shares without par value issuable in series; and unlimited common shares without par value. The maximum consideration for the issuance of first preference shares is $132,500,000.

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. Junior preference shares, first series were redeemed in September 1979. In July 1979, Norcen issued at $50.00 per share 2,200,000 junior preference shares, 1979 series. This series, which has voting rights, is convertible to September 1, 1983 at $28.00 per common share and thereafter until September 1, 1987 at $31.00 per common share and is redeemable at Norcen's option after September 1, 1981 at a premium of $2.16 over issue price, such premium declining by $0.36 per annum until September 1, 1987 after which it is redeemable at issue price.

Changes in Norcen's common and junior preference share capital during the three years ended December 31, 1980 are as follows:

	Common shares		Junior preference shares			
			First Series		1979 Series	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
December 31, 1977	22,726,283	$137,672	684,933	$17,123		
Issued for cash						
Employee savings and investment plan	35,583	573				
Incentive stock option plan	1,936					
Converted						
Preference shares	84,024	1,344	(53,775)	(1,344)		
Convertible notes	55,155	682				
December 31, 1978	22,902,981	140,271	631,158	15,779		
Issued for cash						
Preference shares					2,200,000	$107,800
Employee savings and investment plan	42,198	954				
Incentive stock option plan	9,729					
Converted						
Preference shares	1,035,781	17,366	(618,476)	(15,462)	(38,850)	(1,904)
Convertible notes	93,521	1,152				
Redeemed			(12,682)	(317)		
December 31, 1979	24,084,210	159,743	NIL	NIL	2,161,150	105,896
Issued for cash						
Employee savings and investment plan	**47,389**	**1,636**				
Incentive stock option plan	**713**					
Converted						
Preference shares	**2,527,482**	**69,354**			**(1,415,398)**	**(69,354)**
December 31, 1980	**26,659,794**	**$230,733**			**745,752**	**$ 36,542**

In addition, Norcen redeemed first preference shares as follows:

	Series A		Series B	
	Number of Shares	Amount	Number of Shares	Amount
1978	325	$ 8	27,284	$682
1979	725	18	37,970	949
1980	**293**	**8**	**13,599**	**340**

Common shares may be issued as follows:	
Conversion of junior preference shares	**1,331,700**
Incentive stock option plan, of which market growth options were outstanding at December 31, 1980 on 125,000 shares exercisable at a price of $11.375 expiring in 1982 and on 231,750 shares exercisable at a price of $22.375 expiring in 1984	**636,446**
Employee savings and investment plan	**63,138**
	2,031,284

(b) *Dividend restrictions*

The indentures and agreements relating to Norcen's long-term debt obligations do not limit the payment of dividends by the company. However, the indentures and agreements relating to the long-term debt obligations of Norcen's principal gas utility subsidiary, N&C, contain various covenants limiting the payment of dividends. Under the most restrictive of these covenants the maximum amount of dividends that may be declared at December 31, 1980 is $8,400,000.

10. Income taxes

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

	1980	1979	1978
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	**$48,966**	$25,488	$7,306
Revenue included in taxable income on the basis of instalment payments received in the year	**(11,359)**	(2,644)	(810)
Adjustments to eliminate effect of intercorporate transactions and differences in pre-acquisition deferred tax amounts	**1,320**	2,366	2,111
Other items	**(1,832)**	(999)	1,151
	$37,095	$24,211	$9,758

The above amounts exclude deferred income taxes of $3,700,000 in 1980 ($2,000,000 in 1979 and $2,300,000 in 1978) applicable to the gas utility subsidiaries which are not recorded in the accounts for the reasons outlined in Note 1. These deferred income taxes are primarily based on timing differences between capital cost allowance and depreciation.

The provision for income taxes in the consolidated statement of income reflects effective tax rates of 35.0% in 1980 (38.4% in 1979, 43.2% in 1978) on income before income taxes, minority interests, equity earnings and extraordinary items which are lower than the Canadian federal statutory rate of 46%. Such income tax expense varies from the amounts that would be computed by applying the rate of 46% to income before income taxes, minority interests, equity earnings and extraordinary items for the following reasons:

	1980		1979		1978	
		% of pretax income		% of pretax income		% of pretax income
Computed income tax expense	**$58,497**	**46.0**	$47,424	46.0	$33,061	46.0
Increase (decrease) in income taxes resulting from:						
Income tax depletion	**(11,763)**	**(9.3)**	(8,147)	(7.9)	(6,575)	(9.1)
Gas utility capital cost allowance deducted for income tax purposes in excess of depreciation	**(3,591)**	**(2.8)**	(2,221)	(2.2)	(2,315)	(3.2)
Provincial income taxes in excess of federal abatement	**1,706**	**1.3**	1,733	1.7	860	1.2
Effect of differences in pre-acquisition deferred tax amounts	**1,320**	**1.0**	1,320	1.3	1,320	1.8
Non-deductible royalties, mineral taxes and other expense, less federal resource allowance and provincial rebates	**1,041**	**0.8**	864	0.8	3,160	4.4
Other, net	**(2,639)**	**(2.0)**	(1,336)	(1.3)	1,547	2.1
Actual income tax expense	**$44,571**	**35.0**	$39,637	38.4	$31,058	43.2

11. Extraordinary items

	1979
Adjustment of carried value of investment in GMi as a result of its issue of treasury shares	$(3,079)
Reduction in income taxes from application of a subsidiary's prior years' losses	1,325
	$(1,754)

12. 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 **1980**	1979
Properties		
Canada	**$612,396**	$456,612
Foreign[1]	**52,791**	42,234
Production equipment	**121,521**	83,228
	786,708	582,074
Accumulated depreciation, depletion and amortization	**195,833**	157,885
Capitalized costs	**$590,875**	$424,189

[1]Principal areas of spending have been in Australia, Brazil, Gabon, Oman, Tunisia, the United Kingdom and the United States.

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

	Canada	Foreign	Total
Costs capitalized in the year			
1980–Property acquisition	**$ 72,648**	**$ 1,695**	**$ 74,343**
Exploration	**54,197**	**8,649**	**62,846**
Development	**50,391**	**867**	**51,258**
Total capitalized	**$177,236**	**$ 11,211**	**$188,447**
1979–Property acquisition	$109,977	$ 2,086	$112,063
Exploration	37,391	2,075	39,466
Development	21,106	47	21,153
Total capitalized	$168,474	$ 4,208	$172,682
1978–Property acquisition	$ 11,145	$ 27	$ 11,172
Exploration	32,116	5,723	37,839
Development	12,517	838	13,355
Total capitalized	$ 55,778	$ 6,588	$ 62,366
Depreciation, depletion and amortization expense			
1980	**$ 33,504**	**$ 2,315**	**$ 35,819**
1979	26,267	1,719	27,986
1978	20,070	1,271	21,341
Net revenues from producing oil and gas			
1980–Revenue	**$207,497**	**$ 1,025**	**$208,522**
Production expenses	**33,559**	**146**	**33,705**
Net revenue	**$173,938**	**$ 879**	**$174,817**
1979–Revenue	$158,089	$ 550	$158,639
Production expenses	23,661	70	23,731
Net revenue	$134,428	$ 480	$134,908
1978–Revenue	$118,425	$ 187	$118,612
Production expenses	18,896	13	18,909
Net revenue	$ 99,529	$ 174	$ 99,703

13. Financial data by business segment

	Natural resources			Gas utilities		
	1980	1979	1978	**1980**	1979	1978
Sales and other revenues						
Natural gas distribution				**$480,834**	$434,953	$395,919
Crude oil	**$ 83,338**	$ 64,763	$ 53,412			
Oil sands royalty	**33,660**	17,162	7,315			
Natural gas liquids	**10,194**	8,688	7,319			
Natural gas	**79,114**	67,099	50,263			
Sulphur	**2,216**	927	303			
Oil and gas transmission, LPG marketing and other	**57,586**	50,148	44,440			
	266,108	208,787	163,052	**480,834**	434,953	395,919
Cost of gas	**28,163**	24,810	23,939	**392,253**	346,775	316,230
Operating and administrative expenses	**67,722**	52,977	43,109	**39,088**	34,845	30,631
Depreciation and depletion	**37,279**	29,635	23,013	**8,009**	7,759	7,621
Interest and other financial expense	**21,888**	18,877	18,346	**25,330**	24,936	24,172
Income taxes	**40,078**	31,301	25,124	**4,493**	8,336	5,934
Minority interests	**867**	621	580	**2,998**	3,117	3,147
	195,997	158,221	134,111	**472,171**	425,768	387,735
	70,111	50,566	28,941	**8,663**	9,185	8,184
Equity in earnings of GMi				**7,109**	7,140	6,714
Income before extraordinary items	**$ 70,111**	$ 50,566	$ 28,941	**$ 15,772**	$ 16,325	$ 14,898
Identifiable assets at December 31	**$627,984**	$469,349	$325,191	**$594,955**	$576,036	$561,459
Capital expenditures	**$188,447**	$172,682	$ 62,366	**$ 30,191**	$ 16,963	$ 13,236

14. 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 applicable to common shares as follows:

	Year ended December 31		
	1980	1979	1978
Income applicable to common shares based on			
Canadian accounting principles	**$83,492**	$61,329	$42,515
Foreign currency translation adjustment on long-term debt[1]	**(894)**	3,952	(11,317)
Application of SEC prescribed full cost method net of related deferred income taxes[2]	**(3,763)**	(2,192)	37
Amortization of excess cost of minority shares in 1975 reorganization[3]	**(900)**	(740)	(990)
Income applicable to common shares based on United States accounting principles	**$77,935**	$62,349	$30,245
Earnings per share			
Canadian	**$ 3.16**	$ 2.62	$ 1.86
United States	**$ 2.95**	$ 2.66	$ 1.33

[1] Under United States accounting principles long-term debt in foreign currency would be translated at the rate of exchange in effect at year-end whereas Norcen has followed the practice of translating these amounts at their historical rate of exchange.

[2] 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.

[3] 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 and amortized on the same basis as oil and gas properties.

[4] In 1979, an adjustment of the carrying value of the company's investment in a subsidiary as a result of its issue of treasury shares was classified as an extraordinary item. Under United States accounting principles, this adjustment would not be an extraordinary item.

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

	December 31		
	1980	1979	1978
Retained earnings based on Canadian accounting principles	**$195,703**	$137,321	$ 93,935
Write-off of unrealized exchange losses on long-term debt	**(18,860)**	(17,966)	(21,918)
Application of SEC full cost method	**(21,806)**	(18,043)	(15,851)
Amortization of excess cost of minority shares in 1975 reorganization	**(5,085)**	(4,185)	(3,445)
Other[1]	**(20,920)**	(20,920)	(20,920)
Retained earnings based on United States accounting principles	**$129,032**	$ 76,207	$ 31,801

[1] 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.

15. Quarterly and other financial data (unaudited)

	Quarter				Year
	First	Second	Third	Fourth	
1980					
Sales and other revenues					
as previously reported	$324,503	$207,879			
as restated (Note 2(a))	232,651	152,623	$127,070	$234,598	$746,942
Income before income taxes	61,964	24,620	8,572	35,298	130,454
Net income	38,115	14,331	7,277	23,769	83,492
Net income per share	1.46	0.54	0.26	0.90	3.16
Dividends paid per common share [1]	0.20	0.25	0.25	0.25	0.95
Market price per common share [2]					
High	40	36¾	37½	37¾	
Low	28	30½	34⅛	28	
1979					
Sales and other revenues					
as previously reported	$277,799	$186,617	$156,108	$266,802	$887,336
as restated (Note 2(a))	201,073	138,471	114,443	189,753	643,740
Income before income taxes [3]	44,705	15,369	7,059	39,395	106,528
Net income [3]	26,178	7,381	2,820	26,704	63,083
Net income per share [3] [4]	1.14	0.32	0.11	1.14	2.70
Dividends paid per common share [1]	0.18	0.18	0.20	0.20	0.76
Market price per common share [2]					
High	21⅜	25¼	30½	34	
Low	16½	19½	21¾	22¼	

[1] United States residents are subject to a 10% withholding tax.

[2] The market prices are as reported by the Toronto Stock Exchange.

[3] Before extraordinary items.

[4] 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.

16. Summary of Canadian oil and gas producing activities (unaudited)

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

The following table summarizes the changes in quantities of net proven Canadian oil and gas reserves as determined by independent reservoir engineers. Such quantities vary from reserves determined by company engineers due to timing differences in making reserve estimates.

	Year ended December 31					
	1980		1979		1978	
	Oil & gas liquids	Gas	Oil & gas liquids	Gas	Oil & gas liquids	Gas
	(000's bbls)	(MMcf)	(000's bbls)	(MMcf)	(000's bbls)	(MMcf)
Beginning of year	**74,574**	**576,890**	69,035	548,550	69,136	528,190
Revisions of previous estimates	**5,777**	**42,786**	7,964	25,750	1,231	(4,840)
Purchase of reserves in place	**5,453**	**12,982**	818	34,535	185	20,437
Extensions, discoveries and other additions	**1,676**	**47,166**	3,562	9,263	4,521	44,019
Production	**(7,377)**	**(35,395)**	(6,805)	(41,208)	(6,038)	(39,256)
End of year	**80,103**	**644,429**	74,574	576,890	69,035	548,550

Oil and gas liquids at the end of each year include 17.7, 18.8 and 19.9 million barrels in 1980, 1979 and 1978 respectively as Norcen's oil sands royalty interest. The decline in reserves is principally due to production.

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

RRA attempts to (i) assign a value to proven reserves which is more indicative of the value of the reserves than cost, (ii) reflect additions to proven reserves and changes in valuation of proven reserves in the income statement, and (iii) expense all costs of finding and developing additions to proven reserves, including all costs determined to be not productive, during the current period. In order to develop the values for inclusion in the balance sheet and the additions to proven reserves on the income statement, several assumptions are made. The present value information is calculated by applying a per annum discount rate of 10% as stipulated by the SEC to the estimated net reserves shown above. Income taxes have been calculated on the taxes payable basis by applying rates and other statutory provisions in effect at January 1.

The basis for the amounts presented includes projected production schedules, forecasted development and production costs, and estimates of reserve quantities. Because of the uncertainty inherent in any projections of the future, actual production volumes and development costs may vary from those utilized to calculate the present value of estimated future net revenues. Further, to the extent that the actual cost of capital is different from the prescribed discount rate of 10%, the value of the reserves, as shown below, will be different.

In calculating the estimated future net revenues before income taxes at the end of 1980, prices and costs in effect at January 1, 1981 were assumed to be constant, were applied to net proven reserves and provision was made for estimated future development expenditures that will be required to produce the reserves.

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

	1981	1982	1983	Thereafter	Total
			(millions)		
	$148	$149	$139	$1,852	$2,288

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

	1980	1979	1978
		(millions)	
	$1,106	$907	$656

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

	Year ended December 31	
	1980	1979
	(millions)	
Additions and revisions to estimated proven oil and gas reserves, net of royalties		
Additions to estimated proven reserves	**$ 37**	$ 36
Revisions to estimates of proven reserves in prior years		
Changes in prices		
conventional reserves	**184**	118
oil sands royalty	**(34)**	88
Other	**63**	55
Accretion of discount	**91**	66
	341	363
Acquisition, exploration, development and production costs[1]	**120**	71
Additions and revisions to proven reserves over evaluated costs[2]	**221**	292
Provision for income taxes[2]	**98**	137
Results of oil and gas producing activities on the basis of RRA[2]	**$123**	$155

[1] Property acquisition costs aggregating $103 million to December 31, 1980 ($45 million to December 31, 1979) have not been included in the summary pending the determination of proven reserves.

[2] The effect of incorporating the recently introduced National Energy Program would have been to reduce "Additions and revisions to proven reserves over evaluated costs" by $133 million and to increase "Provision for income taxes" by $4 million.

The primary financial statements shown elsewhere herein recognize revenue upon the production and sale of Norcen's reserves. For 1980 the profit contribution from the production and sale of oil and gas, before administrative expenses, interest, taxes and minority interests, reflected in the primary financial statements is $137 million (1979–$103 million).

The following table which was prepared using the assumption stated above summarizes the changes in the present value of estimated future net revenues from proven reserves including $100 million in 1980 and $149 million in 1979 applicable to Norcen's oil sands royalty interest.

	Year ended December 31	
	1980	1979
	(millions)	
Increases		
Net additions and revisions	**$ 341**	$363
Purchase of reserves in place	**27**	23
Previously projected development costs	**5**	
	373	386
Decreases		
Sales of oil and gas and value of transfers (net of production costs of $34 and $24 million respectively)	**174**	135
Net increase	**199**	251
Beginning of year	**907**	656
End of Year	**$1,106**	$907

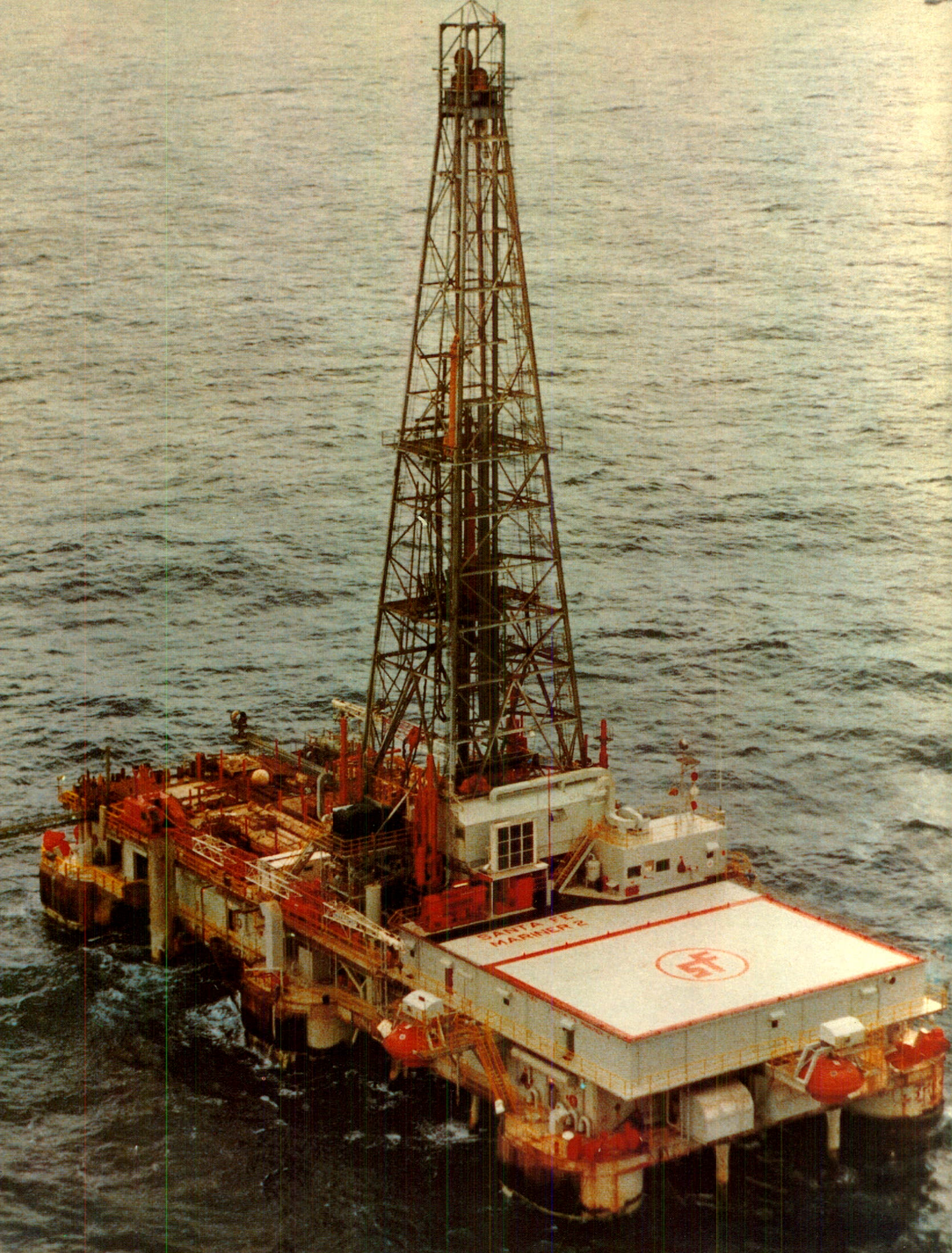
The present value of the estimated future net revenues from proven reserves as of the end of the year should not be viewed as the amount which might be realized in a sale of the reserves in place, nor as the amount which will be ultimately realized from production from the properties.

Nine-year Summary[1]

	1980	1979	1978	1977	1976	1975	1974	1973	1972
Income millions									
Sales and other revenues									
Natural resources	**$ 266.1**	208.8	163.0	154.0	134.2	120.6	80.9	59.0	47.5
Gas utilities	**480.8**	434.9	395.9	316.4	279.4	193.3	140.5	114.1	108.7
Equity in earnings of Gaz Métropolitain, inc.	**7.1**	7.1	6.7	1.2	7.1	5.8	7.4	5.3	3.9
	754.0	650.8	565.6	471.6	420.7	319.7	228.8	178.4	160.1
Costs and expenses									
Gas purchases	**420.4**	371.6	340.2	285.4	244.9	160.6	112.1	83.2	74.3
Production and operations	**106.8**	87.8	73.7	65.6	58.4	50.2	36.7	31.1	28.9
Depreciation and depletion	**45.3**	37.4	30.6	28.4	26.7	24.4	16.4	15.2	13.4
Interest	**47.2**	43.8	42.5	31.3	40.4	34.6	24.5	21.7	20.5
Income taxes	**44.6**	39.6	31.1	24.9	14.6	18.2	12.6	6.9	5.8
Minority interests	**3.8**	3.7	3.7	0.9	0.8	0.8	0.9	0.6	0.5
	668.1	583.9	521.8	436.5	385.8	288.8	203.2	158.7	143.4
Income									
Natural resources	**70.1**	50.6	28.9	27.9	24.2	21.5	13.0	10.2	6.5
Gas utilities	**15.8**	16.3	14.9	7.2	10.7	9.4	12.6	9.5	10.2
	85.9	66.9	43.8	35.1	34.9	30.9	25.6	19.7	16.7
Dividends on preference shares	**2.4**	3.8	1.3	2.8	3.9	4.1	4.1	4.2	3.2
Income applicable to common shares	**$ 83.5**	63.1	42.5	32.3	31.0	26.8	21.5	15.5	13.5
Funds from operations millions									
Natural resources	**$ 145.7**	104.9	62.6	53.3	44.0	40.9	31.5	25.5	19.5
Gas utilities	**26.0**	26.7	25.2	14.5	10.9	15.5	16.9	17.3	16.9
	$ 171.7	131.6	87.8	67.8	54.9	56.4	48.4	42.8	36.4
Capital expenditures millions									
Natural resources	**$ 188.4**	172.7	62.4	34.3	22.8	129.1	33.6	20.6	16.1
Gas utilities	**30.2**	16.9	13.2	10.7	9.9	14.9	17.9	9.3	13.5
	$ 218.6	189.6	75.6	45.0	32.7	144.0	51.5	29.9	29.6
Capitalization millions									
Short-term debt	**$ 85.9**	67.0	63.6	37.0	49.6	69.5	37.6	8.0	6.3
Long-term debt	**342.0**	334.3	357.4	366.2	394.3	376.8	283.5	292.2	280.2
Deferred income taxes	**110.6**	73.5	52.2	42.5	42.1	41.2	41.5	33.9	26.2
Minority interests	**45.8**	46.5	47.0	46.4	10.9	12.0	12.2	9.8	10.0
Shareholders' equity	**466.8**	407.1	255.1	229.0	245.5	225.1	216.0	204.1	201.0
	$1,051.1	928.4	775.3	721.1	742.4	724.6	590.8	548.0	523.7
Assets millions									
Property, plant and equipment	**$ 866.2**	693.3	548.6	504.0	487.5	514.4	395.3	354.3	340.4
Working capital (deficiency), excluding demand bank credits	**$ (2.7)**	7.5	8.1	4.6	15.2	(2.3)	7.5	12.2	(25.5)
Total assets	**$1,222.9**	1,045.4	886.7	820.3	823.9	845.4	664.8	612.7	585.0

[1] This summary excludes Gaz Métropolitain, inc. (See Note 2(a) of the consolidated financial statements).

		1980	1979	1978	1977	1976	1975	1974	1973	1972
Natural resources										
Production										
Crude oil, synthetic crude oil and natural gas liquids	000 bbls/day	**27.2**	26.0	23.2	23.7	23.3	25.8	17.1	16.7	11.6
Natural gas	MMcf/day	**149.7**	169.0	160.0	162.0	166.0	177.0	134.0	128.0	99.0
Sulphur	000 long tons	**36.9**	36.8	20.2	21.6	15.1	23.3	19.3	17.8	14.7
Gas gathering and transmission sales	MMcf/day	**53.9**	55.0	60.0	65.0	76.0	92.0	143.0	146.0	139.0
Oil gathering and transmission throughput	000 bbls/day	**70.4**	73.9	73.6	80.5	83.0	81.4	98.5	110.8	113.4
Liquefied petroleum gas sales	000,000 imp gallons	**62.8**	78.9	78.5	111.6	123.1	110.4	94.8	95.9	88.4
Reserves										
Oil and gas liquids	000,000 bbls	**122.1**	129.0	117.3	109.8	118.2	130.7	81.3	79.2	70.2
Natural gas	Bcf	**1,127.4**	1,144.9	1,019.9	1,016.2	1,075.4	1,152.8	746.9	773.5	582.2
Sulphur	000 long tons	**489.0**	540.0	567.7	498.0	519.6	543.6	305.7	252.0	227.0
Oil and gas land holdings	000,000 gross acres	**30.0**	40.5	36.8	28.5	29.1	31.6	30.0	23.4	20.1
	000,000 net acres	**7.1**	8.8	8.9	9.3	10.5	11.9	12.3	12.0	11.0
Gas utilities										
Gas sales	Bcf									
Industrial–firm		**60.7**	59.6	64.1	67.2	66.9	59.7	67.1	64.1	61.9
–interruptible		**45.5**	51.4	43.0	42.5	37.2	33.2	39.6	39.8	36.0
Commercial		**33.7**	33.8	32.8	27.8	32.2	31.6	28.9	25.5	26.0
Residential		**33.0**	34.4	33.6	31.7	33.3	32.3	33.2	30.5	32.3
		172.9	179.2	173.5	169.2	169.6	156.8	168.8	159.9	156.2
Customers at year-end	thousands	**263.7**	255.2	247.0	242.4	234.7	232.7	231.1	225.8	210.5
Employees at year-end										
Natural resources		**1,045**	1,259	1,193	1,153	1,300	1,100	1,133	1,137	1,087
Gas utilities		**1,058**	952	975	1,050	1,000	1,050	980	955	968
		2,103	2,211	2,168	2,203	2,300	2,150	2,113	2,092	2,055
Common shares										
Average number outstanding	millions	**26.4**	23.4	22.8	21.3	19.6	19.4	19.4	19.3	19.1
Number of shareholders	thousands	**24.0**	28.8	31.7	32.6	29.9	32.0	33.0	34.3	34.1
Earnings per share		**$ 3.16**	2.70	1.86	1.52	1.58	1.38	1.11	0.80	0.71
Dividends per share		**$ 0.95**	0.76	0.72	0.72	0.68	0.68	0.60	0.60	0.60
Market price										
high		**$40.00**	34.00	19.50	19.13	13.88	10.38	13.13	12.50	15.25
low		**$28.00**	16.50	14.63	10.38	9.75	8.38	7.25	9.00	11.25
close		**$31.00**	31.88	18.00	18.88	11.88	10.00	8.50	10.88	12.00


SANTA FE
MARINER 2

Directors and Officers

Directors

Donald D. Barkwell
Calgary, Alberta
Senior Vice-President, Natural Resources

Edward G. Battle[1]
Toronto, Ontario
President and Chief Executive Officer

Conrad M. Black[1,3]
Toronto, Ontario
Vice-Chairman of the Board and
Chairman of the Executive Committee
Chairman, Argus Corporation Limited

G. Montegu Black[1]
Toronto, Ontario
President and Chief Executive Officer,
Argus Corporation Limited

Edmund C. Bovey, C.M.[1]
Toronto, Ontario
Chairman of the Board

Dixon S. Chant[1]
Toronto, Ontario
Executive Vice-President,
Argus Corporation Limited

E. Jacques Courtois, Q.C.[1]
Montreal, Quebec
Partner, Courtois, Clarkson,
Parsons & Tétrault
Barristers and Solicitors

J. Ian Crookston[4]
Toronto, Ontario
Financial Consultant

Robert Després, O.C.[4]
Quebec City, Quebec
Chairman of the Board,
Atomic Energy of Canada Limited

Fredrik S. Eaton[3]
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 and Chief Executive Officer,
Hollinger Argus Limited

Edward A. Galvin[1,3]
Calgary, Alberta
President, Poco Petroleums Ltd.

Frederick A. M. Huycke, Q.C.[4]
Toronto, Ontario
Partner, Osler, Hoskin & Harcourt
Barristers and Solicitors

Richey B. Love, Q.C.[2,3]
Calgary, Alberta
Partner, Macleod Dixon
Barristers and Solicitors

Hon. W. John McKeag[2]
Winnipeg, Manitoba
President, McKeag Realty Ltd.

F. David Radler[2]
Vancouver, British Columbia
President, Sterling Newspapers Ltd.

C. Bruce Ross[3]
Toronto, Ontario
President and General Manager,
Labrador Mining and
Exploration Company Limited

Barbara J. Sparrow[4]
Calgary, Alberta
Director, Calgary Chamber of Commerce
and Member of the Council for College
of Physicians and Surgeons for the
Province of Alberta

William O. Twaits, C.C.[3]
Toronto, Ontario
Director of various companies

John R. Yarnell[2]
Toronto, Ontario
President, Yarnell Companies Limited

[1] Executive Committee
[2] Audit Committee
[3] Compensation Committee
[4] Pension Committee

Officers

Edmund C. Bovey, C.M.
Chairman of the Board

Conrad M. Black
Vice-Chairman of the Board

Edward G. Battle
President and
Chief Executive Officer

Donald D. Barkwell
Senior Vice-President,
Natural Resources

Jean-J. Leroux
Senior Vice-President,
Utilities

Barry D. Cochrane
Vice-President,
Corporate Planning

William C. Hennenfent
Vice-President,
Production

Peter Kaye
Vice-President,
Exploration

William T. Kilbourne
Vice-President,
Administration and Secretary

Wilfrid A. Loucks
Vice-President,
Minerals

Paul H. Palmer
Vice-President,
Comptroller

Timothy G. Sheeres
Vice-President,
Finance

Arthur L. Wood
Vice-President,
Heavy Oil

Alick S. G. Duguid
Treasurer

Douglas A. Love
Assistant Secretary

Russell G. Rennie
Assistant Secretary

Arthur K. Davies
Assistant Treasurer

Mart Pedel
Assistant Treasurer

Offices

Executive & Registered
4600 Toronto-Dominion Centre
Toronto, Ontario M5K 1E5

Natural Resources

Norcen Energy Resources Limited

Cigas Products Ltd.[1,5]

Prairie Oil Royalties Company, Ltd.[2,7]

Norcen International Ltd.[1,5]

Norcen Pipelines Ltd.[3,6]
715-5th Avenue S.W.
Calgary, Alberta T2P 2X7

Coleman Collieries Limited.
Coleman, Alberta T0K 0M0

Gas Utilities

Northern and Central Gas Corporation Limited[4,5]
245 Yorkland Boulevard
Willowdale, Ontario M2J 1R1

Gaz Métropolitain, inc.
1155 Dorchester Boulevard
Montreal, Quebec H3B 3S7

Greater Winnipeg Gas Company[3,6]
265 Notre Dame Avenue
Winnipeg, Manitoba R3B 1N9

[1] Alberta company
[2] Saskatchewan company
[3] Manitoba company
[4] Ontario company
[5] 100% owned
[6] More than 99% owned
[7] 74% owned

Offshore drilling rig for Gabon, West Africa. (Norcen 11 percent)

Corporate Information

Transfer agents and registrars

Common shares

National Trust Company, Limited
Toronto, Calgary, Montreal, Winnipeg and Vancouver

Canada Permanent Trust Company
Regina

Morgan Guaranty Trust Company of New York, New York

Preference shares (all classes)

National Trust Company, Limited
Toronto, Calgary, Montreal, Winnipeg and Vancouver

Canada Permanent Trust Company
Regina

Stock exchange listings and symbols

Toronto and Montreal Stock Exchanges

Common Shares	NCN
First Preference Shares, Series A	NCNPrA
First Preference Shares, Series B	NCNPrB
Junior Preference Shares, 1979 Series	NCNPrD

Trustees

9¾% Secured Debentures due April 15, 1983
Montreal Trust Company
Toronto

10¼% Secured Notes due December 31, 1988
The Royal Trust Company
Toronto

11¼% Secured Debentures due August 15, 1996
National Trust Company, Limited
Toronto

Auditors

Thorne Riddell
Chartered Accountants

Distribution of common shares

December 31, 1980

	Shareholders No.	Shareholders %	Shares No. (000)	Shares %
Alberta	2,166	9	903	3
British Columbia	2,814	12	1,023	4
Manitoba	1,027	5	930	4
New Brunswick	246	1	70	
Newfoundland	52		16	
Northwest Territories	6		1	
Nova Scotia	604	3	176	1
Ontario	9,419	39	18,705	70
Prince Edward Island	60		19	
Quebec	2,612	11	3,710	14
Saskatchewan	484	2	77	
Yukon	5		1	
Canadian	19,495	82	25,631	96
U.S.A.	4,374	18	857	4
U.K.	83		53	
Other foreign	80		119	
	24,032	100	26,660	100

Norcen has a four percent interest in the Issungnak 0-61 well drilled from a man-made island in the Beaufort Sea by Esso Resources Canada Ltd.


Esso