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**PLAINS
PETROLEUMS
LIMITED**

**Annual
Report
1984**



PLAINS

Highlights

	Year ended September 30,	
	1984	1983
Financial (Thousands of Dollars)		
Revenue	4,274	4,057
Net earnings	1,360	1,456
Funds generated from operations	2,931	2,900
Capital expenditures		
Before PIP grants	1,458	729
After PIP grants	1,323	696
Per Common Share (Dollars)		
Net earnings	0.06	0.07
Funds generated from operations	0.14	0.14
Operating		
Average daily production		
Crude oil and natural gas liquids (barrels)	116	101
Natural gas (thousands of cubic feet)	3,501	3,514
Proved reserves		
Crude oil and natural gas liquids (thousands of barrels)	289.3	232.7
Natural gas (millions of cubic feet)	28,147	26,620
Sulphur (thousands of long tons)	118.1	100.4
Undeveloped oil and gas acreage		
Gross (thousands of acres)	735	741
Net (thousands of acres)	89	94

Metric Conversion Factors

1 kilometre	= 0.62 mile
1 metre	= 3.28 feet
1 hectare	= 2.47 acres
1 cubic metre	= 6.2898 barrels (petroleum liquids)
1 cubic metre	= 35.49373 cubic feet (natural gas)
1 tonne	= 0.984 long tons (sulphur)

Board of Directors

R. F. Haskayne, Calgary, Alberta
 B. F. MacNeill, Calgary, Alberta
 D. E. Powell, Calgary, Alberta

Senior Officers

R. F. Haskayne,
 President and Chief Executive
 Officer

D. E. Powell,
 Senior Vice President
 Exploration

H. Alfaro,
 Vice President Production

F. Callaway,
 Vice President Corporate Affairs

B. F. MacNeill,
 Vice President Finance and Chief
 Financial Officer

K. A. McNeill,
 Vice President Administration

R. G. Watkins,
 Vice President Government and
 Industry Relations

D. E. Deakin,
 Corporate Secretary

A. R. Hagerman,
 Treasurer

E. Jorgensen,
 Comptroller

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Tuesday, February 5, 1985 at 2:00 p.m. in the Company's office, 29th floor Auditorium, Home Oil Tower, 324 Eighth Avenue S.W., Calgary, Alberta. Formal notice of this meeting and proxy materials have been mailed to all registered shareholders with this report.

To The Shareholders

Financial Review

Net earnings for the year ended September 30, 1984, amounted to \$1,360,000 or \$0.06 per share compared with \$1,456,000 or \$0.07 per share one year earlier. Funds generated from operations were \$2,931,000 or \$0.14 per share, essentially unchanged from 1983. Modest gains in revenues and slightly lower expenses were more than offset by increased taxes.

Revenues increased slightly to \$4,274,000 from \$4,057,000 in 1983. The improvement was mainly attributable to higher sales of natural gas liquids and sulphur.

Operating and general expenses totalled \$1,075,000 in 1984 compared with \$887,000 one year earlier. The increase primarily reflects higher operating costs in the Gold Creek area of Alberta. Interest expense declined to \$318,000 from \$522,000 in 1983 due to lower interest rates and smaller outstanding advances from the parent company.

Total taxes were \$683,000 compared with \$302,000 in 1983. Higher average royalty rates, the higher Petroleum and Gas Revenue Tax rate, and the reduced amount of the Alberta Royalty Tax Credit contributed to this increase.

Capital expenditures, after Petroleum Incentives Program ("PIP") grants, were \$1,323,000, a significant increase from \$696,000 in 1983. The increase was mainly attributable to the acquisition of an additional interest in the North Coleman gas field of Alberta and a new interest in the gas gathering system serving the field.

Funds generated from operations and other sources amounted to \$3,264,000 compared with \$3,007,000 in 1983. After capital expenditures, these funds were used to reduce the working capital deficiency to \$1,134,000 at September 30, 1984, from \$3,075,000 one year ago. The Company had an unused bank line of credit amounting to \$5,000,000 at year-end.

Exploration and Development

During 1984, Plains participated in the drilling of one exploratory well and three development wells. The exploratory well was drilled in an unsuccessful attempt to extend the North Coleman gas field in southwestern Alberta. Three development wells, in which the Company holds a 3.3 percent interest, were drilled at Steep Creek in western Alberta and all were completed as oil producers.

Plains recently purchased an additional 1.5 percent interest in the North Coleman gas field for approximately \$531,000, bringing the Company's total interest in the field to 10.6 percent. This field now accounts for approximately 32 percent of the Company's gas sales. Earlier in the year, Plains bought a 13.8 percent interest in the gathering system serving the field.

In the Grande Prairie area of Alberta, construction of the facilities to extract additional natural gas liquids at the Wapiti gas plant is well underway. The Company holds a 1.3 percent interest in the facilities which are expected to cost a total of \$30 million and to commence operations in June 1985.

Landholdings

	Undeveloped Acreage	
	Gross	Net
Alberta	155,611	9,117
Arctic	575,337	76,168
Manitoba	3,558	3,558
Saskatchewan	230	125
	<u>734,736</u>	<u>88,968</u>

"Undeveloped acreage" is defined as exploratory lands on which wells have not been drilled or completed to a point that would permit production.

"Gross" refers to the total number of acres in which Plains holds either a working interest or an overriding royalty interest. "Net" is determined by multiplying the gross acres by the percentage of the working interests held by the Company in the gross acres. Overriding royalty interests are not used in calculating net acres.

The table excludes 284,515 gross acres (11,895 net) of developed lands in Alberta. Developed acreage is defined as lands from which production is being obtained or is capable of being obtained.

Production/Sales

Production of crude oil and natural gas liquids in 1984 averaged 116 barrels per day compared with 101 barrels per day in 1983. The 15 percent increase was primarily due to higher sales of natural gas liquids from the Gold Creek field near Grande Prairie, Alberta.

Natural gas sales were 3.5 million cubic feet per day, essentially unchanged from 1983. Increased sales from Gold Creek were offset by reduced volumes from the nearby Karr and South Wapiti fields and from North Coleman. Sulphur sales climbed to 17 long tons per day from 10 long tons per day in 1983 with North Coleman contributing to most of this improvement.

Production/Sales		
(Before Royalties)		
	1984	1983
Crude oil (barrels per day)	62	57
Natural gas liquids (barrels per day)	54	44
Total petroleum liquids (barrels per day)	116	101
Natural gas (thousands of cubic feet per day)	3,501	3,514
Sulphur (long tons per day)	17	10

Proved Reserves

During 1984, proved reserves of crude oil and natural gas liquids rose by 24 percent to approximately 289,000 barrels, primarily because of major upward revisions reflecting improved reservoir performance in the Normandville and Lator fields of west-central Alberta, and the Gold Creek field.

Gas reserves reached 28.1 billion cubic feet, an increase of 6 percent, due to the purchase of additional reserves at North Coleman and upward revisions at Wapiti. The 18 percent rise in

sulphur reserves to 118,000 long tons also resulted from the purchase of additional reserves at North Coleman and upward revisions of this field's reserves.

Proved reserves are the estimated quantities of crude oil, natural gas liquids, natural gas and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The estimates of reserves are prepared by Company engineers.

Outlook

Negotiations between the new federal government and the producing provinces in consultation with the oil and gas industry are expected to lead to the introduction of new stimulative policy measures during the next two years. These should include market pricing for crude oil and natural gas, replacement of PIP grants with tax-based incentives, and revisions to the Petroleum and Gas Revenue Tax. Federal regulations affecting the oil and gas industry have also been targeted for simplification. Plains is encouraged by these constructive initiatives and is well-positioned to take prompt advantage of favourable policy changes.

A gradual transition to market pricing of natural gas began recently when the federal government abolished the long standing uniform price concept for exports to the United States. This cleared the way for sellers to negotiate new market-oriented prices with U.S. buyers. This move should lead to additional sales volumes and revenues during 1985. Plains is in a strong position to take advantage of such gas market improvements following the purchase of additional reserves in the North Coleman field and the participation in new facilities to recover additional gas liquids at the Wapiti plant.

Corporate Developments

Plains has a Canadian Ownership Rate of 81 percent, which qualifies the Company for the highest levels of PIP grants.

Submitted on behalf of the Board of Directors.

R. F. Haskayne

R. F. Haskayne,
President and Chief
Executive Officer.
Calgary, Alberta.
November 28, 1984.

Proved Reserves				
(Before Royalties)				
	Crude Oil	Gas Liquids	Natural Gas	Sulphur
	(barrels)	(barrels)	(millions of cubic feet)	(long tons)
September 30, 1983	106,927	125,796	26,620	100,368
Additions	6,290	—	1,384	15,744
Revisions	60,318	32,267	1,424	8,248
Production/Sales	(22,580)	(19,687)	(1,281)	(6,280)
September 30, 1984	<u>150,955</u>	<u>138,376</u>	<u>28,147</u>	<u>118,080</u>

Balance Sheet

September 30,

	1984	1983
ASSETS		
CURRENT ASSETS		
Cash	\$ —	\$ 55,536
Accounts receivable		
Trade	397,634	321,385
Petroleum incentives program	236,449	297,737
Taxes recoverable	—	38,723
	<u>634,083</u>	<u>713,381</u>
PROPERTY, PLANT AND EQUIPMENT (note 2)		
At cost	17,323,061	16,000,190
Accumulated depletion and depreciation	4,823,402	3,985,456
	<u>12,499,659</u>	<u>12,014,734</u>
OTHER ASSETS	<u>18,917</u>	<u>18,802</u>
	<u>\$13,152,659</u>	<u>\$12,746,917</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 5)	\$ 39,150	\$ —
Advances from parent company (note 6)	1,273,277	3,410,000
Accounts payable	437,399	378,076
Taxes payable	18,040	—
	<u>1,767,866</u>	<u>3,788,076</u>
DEFERRED PRODUCTION REVENUE (note 3)	<u>675,309</u>	<u>342,175</u>
DEFERRED INCOME TAXES	<u>2,209,525</u>	<u>1,476,414</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
30,000,000 common shares of no par value		
Issued		
21,196,776 common shares	4,439,687	4,439,687
CONTRIBUTED SURPLUS	<u>78,000</u>	<u>78,000</u>
RETAINED EARNINGS	<u>3,982,272</u>	<u>2,622,565</u>
	<u>8,499,959</u>	<u>7,140,252</u>
	<u>\$13,152,659</u>	<u>\$12,746,917</u>

Approved by the Board

R. J. Huskayne Director

Blair Seed Director

Statement of Earnings and Retained Earnings

	Year ended September 30,	
	1984	1983
REVENUE		
Operating	\$4,272,042	\$4,053,964
Other	2,125	2,914
	<u>4,274,167</u>	<u>4,056,878</u>
EXPENSE		
Operating	850,459	760,332
General and administrative	224,696	126,806
Depletion and depreciation	837,946	890,387
Interest (note 6)	318,002	521,544
	<u>2,231,103</u>	<u>2,299,069</u>
EARNINGS BEFORE TAXES	2,043,064	1,757,809
TAXES (note 4)	683,357	301,939
NET EARNINGS	1,359,707	1,455,870
RETAINED EARNINGS AT BEGINNING OF YEAR	2,622,565	1,166,695
RETAINED EARNINGS AT END OF YEAR	<u>\$3,982,272</u>	<u>\$2,622,565</u>
EARNINGS PER SHARE	<u>6.4¢</u>	<u>6.9¢</u>

Statement of Changes in Financial Position

	Year ended September 30,	
	1984	1983
FUNDS WERE PROVIDED FROM		
Operations		
Net earnings	\$ 1,359,707	\$ 1,455,870
Items not affecting funds		
Depletion and depreciation	837,946	890,387
Deferred income taxes	733,111	553,303
	<u>2,930,764</u>	<u>2,899,560</u>
Deferred production revenue	333,134	100,723
Other	—	7,136
	<u>3,263,898</u>	<u>3,007,419</u>
FUNDS WERE USED FOR		
Property, plant and equipment	1,322,871	696,450
Other	115	—
	<u>1,322,986</u>	<u>696,450</u>
INCREASE IN WORKING CAPITAL	1,940,912	2,310,969
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	(3,074,695)	(5,385,664)
WORKING CAPITAL DEFICIENCY AT END OF YEAR	<u>\$ (1,133,783)</u>	<u>\$ (3,074,695)</u>

Auditors' Report

To the Shareholders of Plains Petroleums Limited

We have examined the balance sheet of Plains Petroleums Limited as at September 30, 1984 and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at September 30, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
November 16, 1984.


Chartered Accountants

Notes to 1984 Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company follows the full cost method of accounting for oil and gas operations whereby all exploration and development costs are capitalized and charged against earnings as set out below. Capitalized costs include land acquisition costs, geological and geophysical costs, lease rentals and related charges applicable to non-producing property, costs of drilling both productive and non-productive wells, and overhead charges related to exploration and development activities. Such costs are generally limited to the future net revenues from estimated production from proved reserves at current prices and costs and the estimated fair market value of unproved properties. Proceeds of disposals are generally credited to cost and no gains or losses are recognized unless such disposals constitute a major disposition. Costs are depleted using the unit of production method based upon estimated proved reserves, as determined by Company engineers. Natural gas reserves and production are converted to equivalent volumes of crude oil based on the relative energy content. Oil and gas production equipment is depreciated using the unit of production method.

Substantially all of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect the Company's proportionate interest in such activities.

2. PROPERTY, PLANT AND EQUIPMENT

	September 30,			
	1984		1983	
	Cost	Accumulated depletion and depreciation	Net	Net
Petroleum and natural gas properties	\$14,681,319	\$ 4,168,418	\$10,512,901	\$10,092,101
Production equipment	2,641,742	654,984	1,986,758	1,922,633
	<u>\$17,323,061</u>	<u>\$ 4,823,402</u>	<u>\$12,499,659</u>	<u>\$12,014,734</u>

Costs of petroleum and natural gas properties at September 30, 1984 have been reduced by credits of \$697,567 (1983 — \$562,436) with respect to Petroleum Incentives Program grants. Exploration and development expenditures for the year ended September 30, 1984 have been reduced by grants of \$135,131 (1983 — \$33,338).

3. DEFERRED PRODUCTION REVENUE

Amounts paid to the Company by purchasers, for annual contracted gas volumes not taken, are recorded as deferred production revenue. These amounts will be reported as revenue when the gas to which the payments relate is delivered to the purchaser. Deliveries or repayments are to be made over a maximum 10 year period commencing November 1, 1984.

4. TAXES

Taxes are comprised of the following:

	Year ended September 30,	
	1984	1983
Income taxes		
Current	\$ (8,489)	\$ (5,453)
Deferred	733,111	553,303
	<u>724,622</u>	<u>547,850</u>
Petroleum and gas revenue tax	516,533	420,127
Alberta royalty tax credit	<u>(557,798)</u>	<u>(666,038)</u>
Total taxes	<u>\$ 683,357</u>	<u>\$ 301,939</u>
Total taxes as a percentage of earnings before taxes	<u>33.4%</u>	<u>17.2%</u>

Income taxes differ from the amounts which would be obtained by applying the Canadian statutory federal income tax rate of 46 percent to the respective years' pretax earnings. These differences result from the following:

	<u>Year ended September 30,</u>	
	<u>1984</u>	<u>1983</u>
Earnings before taxes	<u>\$2,043,064</u>	<u>\$1,757,809</u>
Computed "expected" income taxes	\$ 939,809	\$ 808,592
Royalties and other payments to provincial governments	467,910	384,902
Federal resource allowance	(463,572)	(456,676)
Depletion allowances on Canadian oil and gas production income	(217,105)	(189,547)
Provincial income taxes net of federal income tax abatement	15,134	11,812
Other	<u>(17,554)</u>	<u>(11,233)</u>
Actual income taxes	<u>\$ 724,622</u>	<u>\$ 547,850</u>
Actual income taxes as a percentage of earnings before taxes	<u>35.5%</u>	<u>31.2%</u>

Deferred income taxes arise from the following:

	<u>Year ended September 30,</u>	
	<u>1984</u>	<u>1983</u>
Exploration and development costs deducted for income tax purposes in excess of related provision for depletion	\$ 642,956	\$ 492,130
Capital cost allowance claimed for income tax purposes in excess of related provision for depreciation	90,155	61,173
	<u>\$ 733,111</u>	<u>\$ 553,303</u>

5. BANK INDEBTEDNESS

As at September 30, 1984, the Company had an unused line of credit of \$5,000,000, which upon drawdown would bear interest at prime rate and would be secured by a general assignment of certain accounts receivable and interests in certain petroleum and natural gas properties.

6. RELATED PARTY TRANSACTIONS

Home Oil Company Limited ("Home") owns approximately 88.5 percent of the issued and outstanding shares of Scurry-Rainbow Oil Limited which, in turn, owns approximately 72.2 percent of the issued and outstanding shares of the Company. During the year ended September 30, 1984, Home provided certain management, accounting, administrative, technical and other services to the Company at cost, which amounted to \$298,742 (1983 — \$163,032).

Advances from the parent company are limited to the unused bank line of credit and are repayable on demand. Effective August 1, 1984, these advances carry interest at one-quarter percent below prime rate; prior to that date, interest was charged at prime. Interest paid to the parent company for the year ended September 30, 1984, amounted to \$316,175 (1983 — \$513,443).

Five-Year Financial and Operating Review

	Year ended September 30,				Nine months ended Sept. 30,
	1984	1983	1982	1981	1980
FINANCIAL					
Revenue					
Crude oil	\$ 537,800	\$ 505,069	\$ 341,790	\$ 265,888	\$ 151,177
Natural gas liquids	406,070	293,906	89,493	37,389	21,320
Natural gas	3,027,750	3,064,193	1,360,454	1,160,607	850,548
Sulphur	300,422	190,796	204,593	159,663	138,203
Other	2,125	2,914	1,596	1,767	1,216
	4,274,167	4,056,878	1,997,926	1,625,314	1,162,464
Expense					
Earnings (loss) before taxes	2,043,064	1,757,809	(114,503)	94,393	321,197
Taxes (recoveries)	683,357	301,939	(332,190)	10,217	39,476
Net earnings	\$ 1,359,707	\$ 1,455,870	\$ 217,682	\$ 84,176	\$ 281,721
Earnings per share					
	6.4¢	6.9¢	1.0¢	0.4¢	1.3¢
Funds generated from operations	\$ 2,930,764	\$ 2,899,560	\$ 644,442	\$ 460,888	\$ 660,066
Capital expenditures (after PIP)	\$ 1,322,871	\$ 696,450	\$ 1,282,752	\$ 1,732,846	\$ 2,292,689
Working capital deficiency	\$ 1,133,783	\$ 3,074,695	\$ 5,385,664	\$ 4,719,202	\$ 3,548,192
Total assets	\$13,152,659	\$12,746,917	\$13,071,043	\$12,082,082	\$10,384,237
Shareholders' equity	\$ 8,499,959	\$ 7,140,252	\$ 5,684,382	\$ 5,466,700	\$ 5,382,524
Shares outstanding	21,196,776	21,196,776	21,196,776	21,196,776	21,196,776
OPERATING					
Production (before royalties)					
Crude oil and natural gas liquids					
(barrels per day)	116	101	71	63	56
Natural gas (thousands of					
cubic feet per day)	3,501	3,514	2,044	1,878	1,889
Sulphur (long tons per day)					
	17	10	14	10	19
Proved Reserves (before royalties)					
Crude oil and natural gas liquids					
(thousands of barrels)	289	233	239	395	220
Natural gas (millions of cubic					
feet)	28,147	26,620	24,900	28,737	20,594
Sulphur (thousands of long tons) ...					
	118	100	93	111	108
Landholdings					
Gross (thousands of acres)					
	1,019	1,038	1,063	1,159	1,227
Net (thousands of acres)					
	101	106	101	106	133
Drilling activity					
Gross wells drilled					
	4	8	9	6	15
Gross oil wells					
	3	3	—	3	5
Gross gas wells					
	—	4	9	3	9

Auditors
Price Waterhouse
Calgary, Alberta.

Registrar and Transfer Agents
Guaranty Trust Company
of Canada
Calgary, Toronto, Montreal,
Vancouver

Stock Exchange Listings Symbols
Alberta Stock Exchange PPD
Vancouver Stock Exchange PPD

Common Share Prices
Vancouver Stock Exchange

	<u>High</u>	<u>Low</u>
	(\$)	(\$)

Year ended		
September 30, 1984		
1st fiscal quarter . . .	0.65	0.51
2nd fiscal quarter . .	0.65	0.53
3rd fiscal quarter . .	0.70	0.51
4th fiscal quarter . .	0.63	0.52

Year ended		
September 30, 1983		
1st fiscal quarter . . .	0.50	0.24
2nd fiscal quarter . .	0.57	0.32
3rd fiscal quarter . .	0.60	0.37
4th fiscal quarter . .	0.80	0.45

Common Shares
At September 30, 1984, the Company had 21,196,776 common shares issued and outstanding. At fiscal year-end, there were 3,821 shareholders. Scurry-Rainbow Oil Limited owns 72.2 percent of the outstanding common shares. To date, no dividends have been authorized or paid on the common shares.

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