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Plains Petroleums Limited
Annual Report 1983

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

K. A. McNeill,
Vice President Administration

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

D. E. Deakin,
General Manager Planning and Corporate Secretary

A. R. Hagerman,
Treasurer

E. Jorgensen,
Comptroller

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Monday, February 6, 1984 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.

Highlights

	Year ended September 30,	
	1983	**1982**
Financial (Thousands of Dollars)		
Revenue	**4,057**	1,998
Net earnings	**1,456**	218
Funds generated from operations	**2,900**	644
Capital expenditures (before PIP grants)	**729**	1,404
Capital expenditures (after PIP grants)	**696**	1,283
Per common share (Dollars)		
Net earnings	**0.07**	0.01
Funds generated from operations	**0.14**	0.03
Operating		
Daily average production (before royalties)		
Crude oil and gas liquids (barrels)	**101**	71
Natural gas (thousands of cubic feet)	**3,514**	2,044
Proved reserves (before royalties)		
Crude oil and gas liquids (thousands of barrels)	**232.7**	238.7
Natural gas (billions of cubic feet)	**26.6**	24.9
Sulphur (thousands of long tons)	**100.4**	98.3
Acreage		
Net acres (thousands)	**106**	101

To The Shareholders

Financial Results

1983 was the most successful year in the Company's history. Net earnings for the year ended September 30, 1983 amounted to $1,456,000 or $0.07 per share compared with $218,000 or $0.01 per share in 1982. Funds generated from operations were $2,900,000 or $0.14 per share compared with $644,000 or $0.03 per share last year. These substantial increases were primarily due to higher revenues and Alberta Royalty Tax Credit, partially offset by higher expenses and taxes.

Revenues, net of royalties, more than doubled to $4,057,000 in 1983. The increase was mainly attributable to new gas sales from the South Wapiti field which were substantially royalty-free, and higher oil prices which rose by $6.69 to an average of $28.27 per barrel during 1983.

Operating and general expenses totalled $887,000 in 1983 compared with $754,000 one year ago, primarily reflecting charges for processing gas in the new South Wapiti plant. Depletion and depreciation expense reached $890,000 in 1983 from $415,000 last year, mainly as a result of higher production volumes and depletion rates. Interest expense declined to $522,000 from $944,000 in 1982 due to reduced levels of debt and lower interest rates.

Total taxes in 1983 were $302,000 compared with a tax recovery of $332,000 in 1982. The substantial increase in both revenue and pre-tax earnings resulted in much higher Petroleum and Gas Revenue Tax and a much greater provision for deferred income taxes, partially offset by the increased Alberta Royalty Tax Credit.

Capital expenditures during 1983 totalled $696,000 compared with $1,283,000 during the previous year. Most of the expenditures in both 1982 and 1983 were required for new production facilities and development drilling in the Gold Creek area of Alberta.

The total of funds generated from operations, deferred production revenue, and other sources amounted to $3,007,000 in 1983 compared with $651,000 in 1982. All funds in excess of capital expenditures were used to reduce the working capital deficiency to $3,075,000 at September 30, 1983, from $5,386,000 at September 30, 1982. At year-end the Company had an unused borrowing capacity of $2,590,000.

Exploration and Development

During the year, the Company participated in the drilling of two exploratory wells and six development wells with interests ranging from 1.60 to 3.33 percent. Exploratory drilling resulted in one working interest gas well and one royalty interest gas well both located in the Gold Creek area of Alberta. Of the six development wells, two were working interest gas wells in the Gold Creek area, and one was a working interest oil well in the Jayar-Dunvegan field in west central Alberta. Plains also participated in three royalty interest development wells; two of which were oil wells in the Wapiti area and one was dry in the Waterton area of Alberta.

By virtue of the Company's interest in eleven connected gas wells in the south and central blocks of the South Wapiti field, Plains became a 1.96 percent owner in the South Wapiti gas processing plant. In addition, small interests in the gas gathering systems and compression facilities were acquired.

Plains holds a 14.27 percent interest in an exploratory well currently drilling in the Coleman area of southwestern Alberta. This 13,000 foot test is on a structure northeast of the Coleman gas field and drilling should be completed early in 1984.

Acreage[1]

	Gross	Net
Arctic	575,337	76,168
Alberta	458,486	26,286
Manitoba	3,558	3,558
Saskatchewan	230	125
Total acreage at September 30, 1983[2]	1,037,611	106,137
Total acreage at September 30, 1982	1,063,146	101,253

[1] The term "gross acres" refers to the total number of acres in which Plains holds either a working interest or an overriding royalty interest. "Net acres" are 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.

[2] The Company's total acreage at September 30, 1983, includes 296,195 gross acres and 12,355 net acres of developed lands in the western provinces.

Production

During 1983, crude oil and natural gas liquids production, before royalties, averaged 57 and 44 barrels per day, respectively, for a combined total of 101 barrels per day. The 144 percent increase in natural gas liquids production largely resulted from higher gas sales from the Karr field. Average natural gas sales, before royalties, were up 72 percent to approximately 3.5 million cubic feet per day, primarily due to new sales from the South Wapiti field. Sulphur sales averaged 10 long tons per day, a decline of 29 percent from last year due to the Saratoga gas plant being shut-in for part of the year.

Production from South Wapiti began on December 15, 1982, and the Company's share averaged 3.0 million cubic feet per day until March 31, 1983. In that period, the 1983 contract volumes were largely fulfilled and production was either shut-in or restricted to very low rates for the remainder of the fiscal year. Continuous production resumed on November 1, 1983, the start of the new contract year, at relatively low rates. The one-year royalty-free period affecting some of the sales from this field will continue through 1984.

In a similar situation, the annual contract volumes from the Karr area were largely fulfilled between November 1, 1982 and March 31, 1983, and the gas processing plant was shut-in, except for intermittent periods, until the new contract year commenced on November 1, 1983. By March 31, 1983, the Company's share of sales from the Karr field had averaged 700,000 cubic feet of gas per day.

Production
(Before Royalties)

	1983	1982
Crude oil (barrels per day)	57	53
Gas liquids (barrels per day)	44	18
Total petroleum liquids (barrels per day)	101	71
Natural gas (thousands of cubic feet per day)	3,514	2,044
Sulphur (long tons per day)	10	14

Proved Reserves

The proved reserves of natural gas liquids, natural gas and sulphur increased due to significant upward revisions which more than offset production. These resulted from improved reservoir performance, primarily in the South Wapiti and Karr gas fields. Successful drilling replaced 16 percent of the Company's crude oil production and 50 percent of its gas sales in 1983.

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 economically recoverable in future years from known reservoirs under existing operating and economic conditions. The estimates of reserves are prepared by Company engineers.

Proved Reserves
(Before Royalties)

	Crude Oil (barrels)	Gas Liquids (barrels)	Natural Gas (millions of cubic feet)	Sulphur (long tons)
October 1, 1982	118,600	120,100	24,900	98,300
Additions	3,264	—	637	—
Revisions	5,368	21,756	2,366	5,718
Production	(20,305)	(16,060)	(1,283)	(3,650)
September 30, 1983	106,927	125,796	26,620	100,368

Outlook

During 1983, the Government of Canada increased and froze the Conventional Old Oil Price at $29.75 per barrel, replaced the Special Old Oil Price with the New Oil Reference Price, reduced the export price of natural gas from $4.94 (U.S.) to $4.40 (U.S.) per thousand cubic feet and introduced a Volume Related Incentive Price of $3.40 (U.S.) per thousand cubic feet for natural gas exports exceeding specified base levels. In addition, the federal and provincial governments commenced examining a number of additional pricing incentives designed to increase domestic and export sales.

To complement its ongoing incentives programs, the Government of Alberta re-introduced, with some modifications, the Well Servicing Incentive Program and the Development Drilling Incentive System. Both of these programs provided cash grants and were terminated during the last two months of fiscal 1983. The government also decided to significantly reduce the Alberta Royalty Tax Credit effective January 1, 1984, from 75 percent to 50 percent of Crown royalties and from a maximum of $4 million to a maximum of $2 million.

The positive initiatives of governments taken during 1983 outweigh the negative, and indications are that governments recognize the problems facing the industry. Of particular importance to the Company will be their efforts to encourage increased gas sales because Plains has substantial shut-in reserves.

In 1984, the Company will dedicate a substantial portion of its cash flow to improving its working capital position and reducing further interest charges.

By virtue of its existing interests in the Wapiti gas field and the related gathering and processing equipment, Plains intends to participate in the construction of deep cut facilities that will extract additional liquids from the gas stream. The total cost is currently estimated at $35 million with the Company's proposed 1.5 percent share being approximately $525,000. The scheduled start-up of these facilities is January, 1985.

Corporate Developments

Plains has a Canadian Ownership Rate of 78 percent, which qualifies the Company for the highest level of grants under the Petroleum Incentives Program.

Since the last annual report to shareholders, D.E. Powell was appointed Senior Vice President Exploration and a Director of the Company, replacing W.H. Waddell.

Submitted on behalf of the Board of Directors.

R J Haskayne

Calgary, Alberta, Canada
November 25, 1983

President and Chief
Executive Officer

Balance Sheet

	September 30, 1983	1982
Assets		
CURRENT ASSETS		
Cash	**$ 55,536**	$ 5,105
Accounts receivable		
Trade	**321,385**	207,912
Petroleum incentives program	**297,737**	529,098
Alberta royalty tax credit	**262,588**	66,293
Affiliated companies	**—**	94,319
	937,246	902,727
PROPERTY, PLANT AND EQUIPMENT, at cost (note 3)	**16,000,190**	15,303,740
Accumulated depletion and depreciation	**3,985,456**	3,095,069
	12,014,734	12,208,671
OTHER ASSETS	**18,802**	25,938
	$12,970,782	$13,137,336
Liabilities		
CURRENT LIABILITIES		
Bank indebtedness (note 4)	**$ —**	$ 5,065,000
Advances from parent company (note 5)	**3,410,000**	—
Accounts payable	**378,076**	1,032,493
Taxes payable	**223,865**	190,898
	4,011,941	6,288,391
DEFERRED PRODUCTION REVENUE	**342,175**	241,452
DEFERRED INCOME TAXES	**1,476,414**	923,111
Shareholders' Equity		
CAPITAL STOCK		
Authorized		
30,000,000 shares of no par value		
Issued		
21,196,776 shares	**4,439,687**	4,439,687
CONTRIBUTED SURPLUS	**78,000**	78,000
RETAINED EARNINGS	**2,622,565**	1,166,695
	7,140,252	5,684,382
	$12,970,782	$13,137,336

Approved by the Board

Director R. J. Haskayne

Director Blair Seaward

Statement of Earnings and Retained Earnings

	Year ended September 30, 1983	1982
REVENUE		
Operating	**$4,053,964**	$1,996,330
Investment	**2,914**	1,596
	4,056,878	1,997,926
EXPENSE		
Operating	**760,332**	644,445
General and administrative	**126,806**	109,118
Depletion and depreciation	**890,387**	415,324
Interest (note 5)	**521,544**	943,547
	2,299,069	2,112,434
EARNINGS (LOSS) BEFORE TAXES	**1,757,809**	(114,508)
TAXES (RECOVERY)		
Alberta royalty tax credit	**(666,038)**	(525,169)
Income taxes — current	**(5,453)**	—
— deferred	**553,303**	11,436
Petroleum and gas revenue tax	**420,127**	172,542
Incremental oil revenue tax	**—**	9,001
	301,939	(332,190)
NET EARNINGS	**1,455,870**	217,682
RETAINED EARNINGS AT BEGINNING OF YEAR	**1,166,695**	949,013
RETAINED EARNINGS AT END OF YEAR	**$2,622,565**	$1,166,695
EARNINGS PER SHARE	**6.9¢**	1.0¢

Statement of Changes in Financial Position

	Year ended September 30, 1983	1982
FUNDS WERE OBTAINED FROM		
Operations	**$ 2,899,560**	$ 644,442
Deferred production revenue	**100,723**	—
Other	**7,136**	6,968
	3,007,419	651,410
FUNDS WERE USED FOR		
Property, plant and equipment	**696,450**	1,282,752
Reduction in deferred production revenue	**—**	35,120
	696,450	1,317,872
INCREASE (DECREASE) IN WORKING CAPITAL	**2,310,969**	(666,462)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR	**(5,385,664)**	(4,719,202)
WORKING CAPITAL DEFICIENCY AT END OF YEAR	**$(3,074,695)**	$(5,385,664)

Auditors' Report

To the Shareholders of Plains Petroleums Limited

We have examined the balance sheet of Plains Petroleums Limited as at September 30, 1983 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 in Canada, 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, 1983 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 in Canada applied, except for the change in the method of accounting for oil and gas production equipment as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

Calgary, Canada
November 16, 1983

Notes to 1983 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. CHANGE IN ACCOUNTING POLICY

Prior to October 1, 1982, the Company depreciated its oil and gas production equipment on a straight-line basis. Effective October 1, 1982, the Company changed its accounting policy in respect of depreciation of its oil and gas production equipment to the unit of production method. As a result of this change, net earnings decreased by approximately $170,000 (0.8¢ per share) for 1983. The cumulative effect of the change to September 30, 1982 is not material.

3. PROPERTY, PLANT AND EQUIPMENT

	1983			1982
	Cost	**Accumulated depletion and depreciation**	**Net**	**Net**
Petroleum and natural gas properties	**$13,647,621**	**$3,555,520**	**$10,092,101**	$10,411,997
Production equipment	**2,352,569**	**429,936**	**1,922,633**	1,796,674
	$16,000,190	**$3,985,456**	**$12,014,734**	$12,208,671

Costs of petroleum and natural gas properties at September 30, 1983 have been reduced by credits of $562,436 (1982 — $529,098) with respect to petroleum incentives program grants.

4. BANK INDEBTEDNESS

Bank indebtedness is secured by general assignment of certain accounts receivable and interests in certain petroleum and natural gas properties.

5. 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, 1983, Home provided certain management, accounting, administrative, technical and other services to the Company at charges equal to the cost of services rendered, which amounted to $163,032 (1982 — $95,272).

Advances from the parent company carry interest at a Canadian bank's prime rate and are repayable on demand. Interest paid to the parent company for the year ended September 30, 1983, amounted to $513,443 (1982 — $10,246).

Five Year Financial and Operating Review

	Year ended September 30, 1983	Year ended September 30, 1982	Year ended September 30, 1981	Nine months ended September 30, 1980	Year ended December 31, 1979
FINANCIAL					
Revenue					
Crude oil	**$ 505,069**	$ 341,790	$ 265,888	$ 151,177	$ 181,661
Natural gas liquids	**293,906**	89,493	37,389	21,320	33,975
Natural gas	**3,064,193**	1,360,454	1,160,607	850,548	915,366
Sulphur	**190,796**	204,593	159,663	138,203	57,489
Other	**2,914**	1,596	1,767	1,216	9,516
	4,056,878	1,997,926	1,625,314	1,162,464	1,198,007
Expense	**2,299,069**	2,112,434	1,530,921	841,267	729,705
Earnings (loss) before taxes	**1,757,809**	(114,508)	94,393	321,197	468,302
Taxes (recovery)	**301,939**	(332,190)	10,217	39,476	79,350
Net earnings before extraordinary item	**1,455,870**	217,682	84,176	281,721	388,952
Extraordinary item	**—**	—	—	—	344,718
Net earnings	**$ 1,455,870**	$ 217,682	$ 84,176	$ 281,721	$ 733,670
Earnings per share	**6.9¢**	1.0¢	0.4¢	1.3¢	3.5¢
Funds generated from operations	**$ 2,899,560**	$ 644,442	$ 460,888	$ 660,066	$ 797,604
Capital expenditures	**$ 696,450**	$ 1,282,752	$ 1,732,846	$ 2,292,689	$ 3,366,466
Total assets	**$12,970,782**	$13,137,336	$12,144,746	$10,384,237	$ 8,195,086
Bank indebtedness	**$ —**	$ 5,065,000	$ 4,879,500	$ 2,817,000	$ 740,000
Shareholders' equity	**$ 7,140,252**	$ 5,684,382	$ 5,466,700	$ 5,382,524	$ 5,100,803
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)	**101**	71	63	56	62
Natural gas (thousands of cubic feet per day)	**3,514**	2,044	1,878	1,889	2,112
Sulphur (long tons per day)	**10**	14	10	19	13
Proved reserves (before royalties)					
Crude oil and natural gas liquids (thousands of barrels)	**233**	239	395	220	201
Natural gas (millions of cubic feet)	**26,620**	24,900	28,737	20,594	21,787
Sulphur (long tons)	**100,368**	98,300	110,910	108,323	74,961
Landholdings					
Gross acreage	**1,037,611**	1,063,146	1,159,233	1,227,229	1,544,366
Net acreage	**106,137**	101,253	105,796	133,282	162,784
Drilling activity					
Gross wells drilled	**8**	9	6	15	50
Gross oil wells	**3**	—	3	5	7
Gross gas wells	**4**	9	3	9	41

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

	High	Low
	($)	($)
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
Year ended September 30, 1982		
1st fiscal quarter	0.55	0.30
2nd fiscal quarter	0.59	0.26
3rd fiscal quarter	0.35	0.20
4th fiscal quarter	0.36	0.21

Common Shares
At September 30, 1983, the Company had 21,196,776 common shares issued and outstanding. At fiscal year-end, there were 3,995 shareholders. Scurry-Rainbow Oil Limited owns 72.2 percent of the outstanding common shares.

No dividends are paid on the common shares.

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)

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