PanCanadian

Annual Report 1983

Corporate

Company Profile

PanCanadian Petroleum Limited, headquartered in Calgary, Alberta, is one of the largest Canadian-owned hydrocarbon companies. It is engaged in exploration, production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. PanCanadian has approximately 1 350 employees.

Shareholders' Meeting

The Annual Meeting of Shareholders will be held in the Turner Valley Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., local time on Thursday, April 5, 1984. Notice of Meeting, Management Proxy Circular and Form of Proxy are being mailed to each Shareholder with this report.

In April, each year, PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information." The report contains more detailed information than is possible to include in the Annual Report, and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Coordinator – Budgetary Control & Statistics.

Contents

Offices

HEAD OFFICE
PanCanadian Plaza
150 - 9th Avenue S.W.
Calgary, Alberta
T2P 3H9

UNITED KINGDOM
62/65 Trafalgar Square
London, England WC2N 5DD

UNITED STATES
PanCanadian Petroleum Company
Dominion Plaza, Suite 1800
600 - 17th Street
Denver, Colorado 80202

4545 Texas Commerce Tower
Houston, Texas 77002

Shares Listed

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company of Canada
Calgary, Montreal, Toronto, Vancouver

Banker

The Royal Bank of Canada

Auditors

Price Waterhouse
Chartered Accountants
Calgary, Alberta

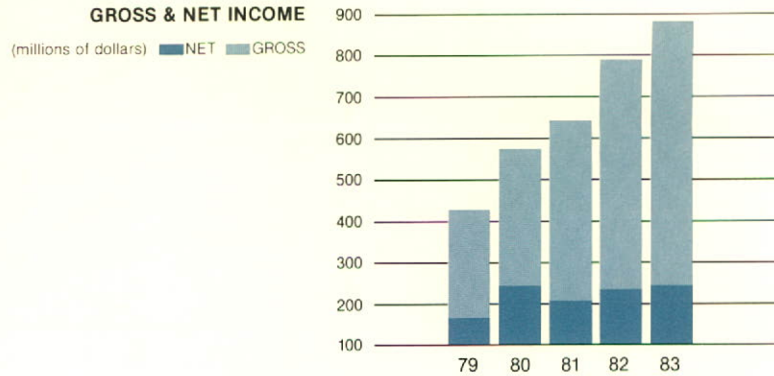
Subsidiary and Affiliate Companies

Wholly-Owned

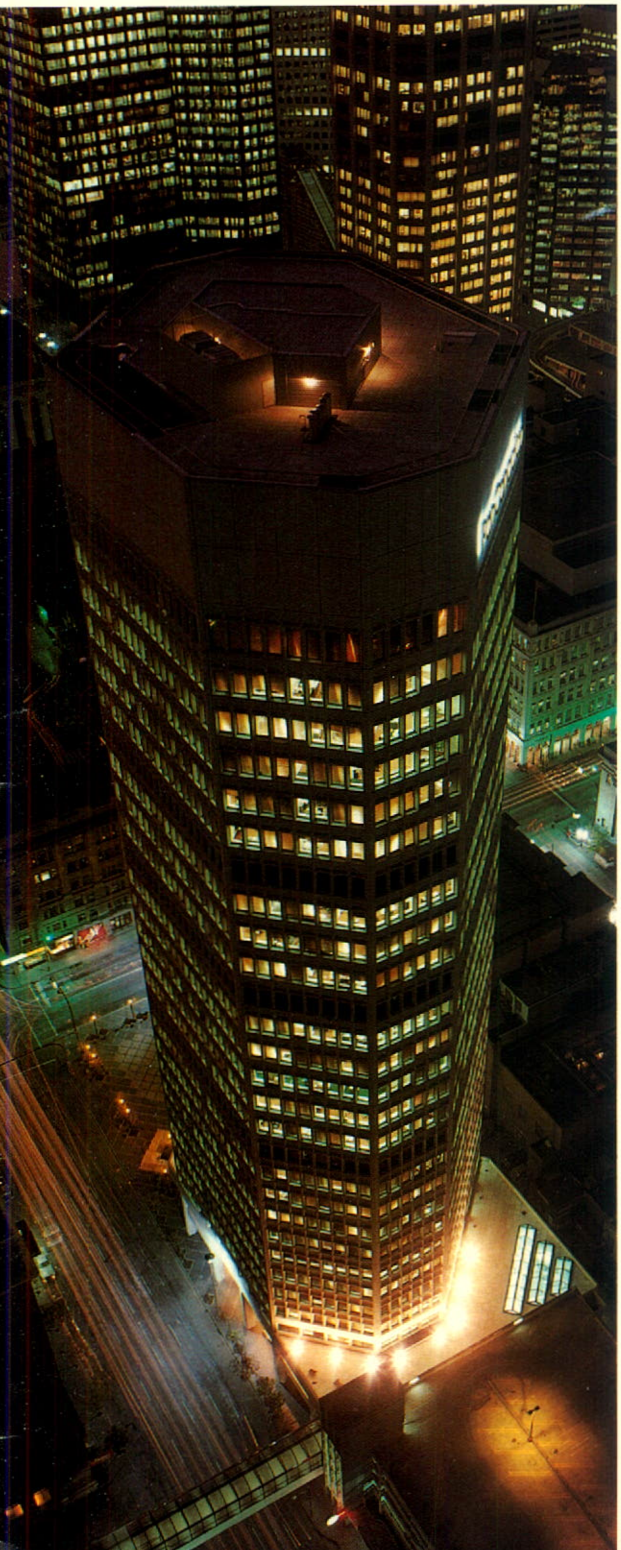
Blackfoot Pipelines Ltd.
Canadian Pacific Oil and Gas of Canada Limited
Canadian Pacific Oil and Gas Nederland B.V.
PanCanadian Gas Products Ltd.
PanCanadian Petroleum Company
PanCanadian Petroleum (U.K.) Limited
PanCanadian Kerrobert Pipeline Ltd.

Other

Minerals Ltd. — 50%
Panarctic Oils Ltd. — 8.17%
Syncrude Canada Ltd. — 4%



Highlights



Financial

(Dollar amounts in thousands except per share figures)

	1983	1982
Gross Income	$884 387	$792 599
Funds from Operations	391 976	423 821
Per Share	3.14	3.39
Net Income	241 091	230 666
Per Share	1.93	1.85
Dividends	112 384	112 401
Per Share	.90	.90
Capital Expenditures	266 764	331 095
Long-Term Debt at end of year	156 000	177 875
Working Capital at end of year	107 319	58 076

Operating

	1983	1982
Daily Production (After Royalty)		
Natural Gas – million cubic feet	288.3	315.8
Conventional Crude Oil and Natural Gas Liquids – barrels	51 998	53 994
Synthetic Crude Oil – barrels	3 692	2 827
Methanol – tonnes	582	—
Drilling Statistics – Working Interest Wells		
Exploratory Wells Drilled	327	308
Indicated Successes	219	200
Development Wells Drilled	199	171
Indicated Successes	180	159
Net Working Interest Acreage (thousand acres)	8 526	9 004

Directors and Senior Management

Corporate Directors

F.S. Burbidge Montreal, Quebec		Chairman and Chief Executive Officer of Canadian Pacific Limited.
Robert W. Campbell Calgary, Alberta	*	Chairman of the Board of PanCanadian Petroleum Limited; Director, Vice Chairman and Chief Executive Officer of Canadian Pacific Enterprises Limited; Director of: The Algoma Steel Corporation, Limited; AMCA International Limited; Canadian Pacific Limited; Canadian Pacific Securities Limited; Cominco Ltd. and Great Lakes Forest Products Limited.
Albert D. Cohen, C.M. Winnipeg, Manitoba	†	President and Chief Executive Officer of Gendis Inc.
S.E. Eagles Calgary, Alberta		President of Canadian Pacific Enterprises Limited.
Jock K. Finlayson Toronto, Ontario		Corporate Director. Chairman, Royal Insurance Company of Canada, Toronto; Chairman, RoyWest Trust Group, Nassau, Bahamas.
Vernon L. Horte Calgary, Alberta	*†	President of V.L. Horte Associates Limited
G. Donald Love Toronto, Ontario		President and Chairman of the Board of Oxford Development Group Ltd.
Hugh A. Martin Vancouver, B.C.	†	President of Western Construction & Engineering Research Ltd.
Bartlett B. Rombough Calgary, Alberta	*	President and Chief Executive Officer of PanCanadian Petroleum Limited; Director of Canadian Pacific Securities Limited, Fording Coal Limited and Panarctic Oils Ltd.
John C. Ross Lethbridge, Alberta	†	Rancher; President of The Milk River Cattle Company Limited
The Honourable Ian D. Sinclair, O.C., Q.C. Toronto, Ontario		Chairman of Canadian Pacific Enterprises Limited.
Marshall M. Williams Calgary, Alberta	*	President and Chief Executive Officer of TransAlta Utilities Corporation

* Member of Executive Committee
† Member of Audit Committee

Corporate Officers and Senior Management

Robert W. Campbell	Chairman of the Board
Bartlett B. Rombough	President and Chief Executive Officer
C. Barrie Clark	Executive Vice President
Charley H. Stevens	Senior Vice President – Finance and Administration
Richard C. Verner	Senior Vice President – Operations
Kenneth B. Cusworth	Vice President – Corporate Research
Arthur W. Groll	Vice President – Industry Relations
C. Rolf V. Thomson	Vice President – Exploration
George E. Little	Corporate Secretary
Donald N. Maxwell	Comptroller
Keith A. Wurzer	Treasurer
William S. Bishai	General Manager – Production
Guido A. Montemurro	General Manager – Development
William C. Reinwart	General Manager – Marketing
Donald R. Reeves	Vice President, Exploration, PanCanadian Petroleum Company, Denver, Colorado
Virginia M. James	Assistant Secretary
Ronald B. Zavediuk	Assistant Treasurer

To The Shareholders

During 1983, PanCanadian generated revenues of $884.4 million compared to $792.6 million in 1982, an increase of 12%. Net income increased 5%, from $230.7 million during 1982 to $241.1 million in 1983, or from $1.85 per share to $1.93 per share. Funds generated from operations were $392.0 million or $3.14 per share, a decrease of 8% from the record $423.8 million or $3.39 per share generated during 1982.

The issued and outstanding common shares were subdivided on a four for one basis during the year. The common shares of the Company commenced trading on the divided basis on April 21, 1983.

Capital expenditures, before deduction of Petroleum Incentive Program grants, decreased 19%, from $331.1 million in 1982 to $266.8 million in 1983. Exploration expenditures, including investment in Panarctic Oils Ltd., reached $179.6 million compared to $170.8 million in 1982. PanCanadian's activities were concentrated on crude oil exploration in western Canada. The Company drilled more wells in Alberta than any other operator during 1983. Exploration and development activities were expanded in Saskatchewan where government programs and policy changes have resulted in improved economic returns. The Company continued its presence offshore eastern Canada, and programs were maintained in the United States and in the North Sea. Expenditures on development drilling, facilities and equipment amounted to $87.2 million, a decrease of 26% from the 1982 total of $118.3 million which excludes $42.0 million expended on the methanol plant in Edmonton. In 1984, efforts will continue to be mainly directed at finding and developing crude oil reserves in western Canada.

Daily production of crude oil and natural gas liquids, after royalty, totalled 55 690 barrels, a decrease of 2% from the daily average of 56 821 barrels in 1982. This decrease from the 1982 level was due to reduced production of natural gas liquids from the Empress extraction plants, as a result of lower gas flows. It is noteworthy, however, that production gains were achieved for both conventional and synthetic crude oil and for natural gas liquids produced from the Company's natural gas production. Production qualifying for the New Oil Reference Price amounted to approximately 10 400 barrels a day by year-end, representing 30% of PanCanadian's conventional crude oil production. Sales of natural gas decreased 9% from 315.8 million cubic feet a day in 1982 to 288.3 million during 1983.

Gross additions to reserves during 1983, on an oil equivalent basis, replaced 127% of production. Additions to conventional crude oil, including natural gas liquids, and natural gas reserves replaced 145% and 113% of the year's production respectively.

Remaining reserves of crude oil and natural gas liquids at year-end, before royalty, were 157.2 million barrels, compared to 150.4 million at the end of 1982. Natural gas reserves, before royalty, increased from 3 934 billion cubic feet in 1982 to 3 949 billion cubic feet in 1983. These figures exclude those attributable to Syncrude and Panarctic Oils Ltd.

During 1983, significant steps were taken by governments to restore the outlook for the Canadian petroleum industry. Improvements in provincial tax and royalty regimes coupled with provincial incentive programs and federal initiatives in taxation and crude oil pricing have led to increased industry activity and a more stable and optimistic environment.

The pricing basis for crude oil in Canada underwent numerous changes during 1983 and early 1984. The Conventional Old Oil Price was not rolled back following the decline in international crude oil prices early in 1983 and is now approximately 82% of international prices. This price is expected to remain at current levels through the end of 1984. Crude oil which was receiving the Special Old Oil Price now receives the New Oil Reference Price, which is based on world crude oil prices. In addition, a revised method for determining New Oil Reference Prices, which is based on current international crude oil values, came into effect January 1, 1984. We regard these pricing initiatives as positive steps toward the Company's preference for a single price for crude oil, tied to world prices.

Although Canadian demand for domestic crude oil production remained static during the year, steps taken by the National Energy Board to increase heavy crude oil exports, to allow exports of light crude oil and to maintain competitive export pricing substantially reduced the problem of shut-in crude oil productive capacity during 1983. The United States market demonstrated a stronger demand for competitively priced Canadian crude oil, particularly for the heavier grades. This demand results in part from increased asphalt sales for a federally funded road construction program. As well, a program of upgrading and modifications by the refining industry in the United States is allowing the processing of larger volumes of less expensive heavy crude oils into more valuable lighter end products. These developments should ensure greater demand for Canadian heavy crude oil in United States markets over the long term.

Medium and heavy gravity crude oils will represent an even more significant part of total crude oil supplies in western Canada in the years to come. Your Company is a major producer of these crudes and, with its extensive land holdings in Alberta, is well positioned to benefit from this increasing role for heavier crude oils.

A major capital investment program designed to raise the Syncrude plant capacity by approximately 20 000 barrels a day was initiated as a result of an agreement between the government of Alberta and the Syncrude participants. Dependent upon the level of capital expenditures incurred each year, the government will defer a portion of its royalties from the Syncrude project over a five year period. This royalty arrangement provided the economic stimulus needed for the proposed capital program.

Recently, the natural gas industry has suffered a temporary setback as demand for natural gas declined in several major market areas. During 1983, domestic sales were slightly lower than those in 1982. With the exception of the expanding markets in Québec, domestic markets with pipeline connections east of Alberta have been flat for the past few years with future growth dependent upon increased economic activity.

Exports of natural gas to the United States during 1983 declined 9% when compared to 1982. The past year has been a particularly difficult year for gas sales because the northern and mid-western United States market areas enjoyed a record setting mild winter in early 1983. Additionally, Canadian natural gas is experiencing intense competition from United States indigenous natural gas and fuel oil. On a more positive note, export sales were stronger in December 1983 because of the cold spell which covered most of North America.

To improve the competitive position of Canadian natural gas in United States markets, the Canadian government lowered the export price from $4.94 (U.S.) to $4.40 (U.S.) per million BTU's in 1983. As well, a volume related incentive price was set at $3.40 (U.S.) per million BTU's through October 31, 1984, for natural gas sales which exceed specified reference levels. The large potential in the United States market requires that, as an industry, we be competitive now in each area being served to ensure a future position in these areas.

Natural gas is a major contributor to PanCanadian's revenues. With further pricing initiatives in both the domestic and export markets, your Company believes that the level of natural gas sales can be increased significantly during the next few years. Your Company has both the reserves and the productive capability to meet these contemplated increases in natural gas sales volumes.

The methanol plant in Edmonton, in which your Company has a 35% interest, commenced commercial production in January, 1983. Total plant production amounted to 606 980 tonnes. With additional world productive capacity scheduled during 1984, the present surplus of supply over demand will be further aggravated. Worldwide methanol demand continues to be weak. Near term improvements in methanol markets are dependent upon worldwide economic recovery, with the development of motor fuel blending markets providing additional potential.

Mr. S.E. Eagles was appointed to the Board of Directors in August, 1983 to fill the vacancy created by the resignation of Mr. W.J. Stenason.

We thank our employees for their continued cooperation and efforts on the Company's behalf.

Submitted on behalf of the Board of Directors.

Robert W. Campbell
Chairman of the Board

Bartlett B. Rombough
President and Chief Executive Officer

Calgary, Alberta
February 9, 1984

Exploration

PanCanadian continued an aggressive drilling program during the year. The Company had an interest in 752 wells drilled in 1983, compared to 743 in 1982. Of this total, 427 wells were exploratory and 325 were development.

Emphasis was again placed on the search for oil in western Canada where PanCanadian is one of the most active operators. Of the 396 exploratory wells drilled, 196 were oil wells and 84 were gas wells. An additional 137 oil wells and 144 gas wells resulted from development drilling. Offshore eastern Canada, PanCanadian participated in one well.

In the United States, the Company had an interest in the drilling of 29 exploratory and 21 development wells, which resulted in 23 oil wells and eight gas wells. Internationally, exploration is continuing in the United Kingdom and Netherlands sectors of the North Sea.

Alberta

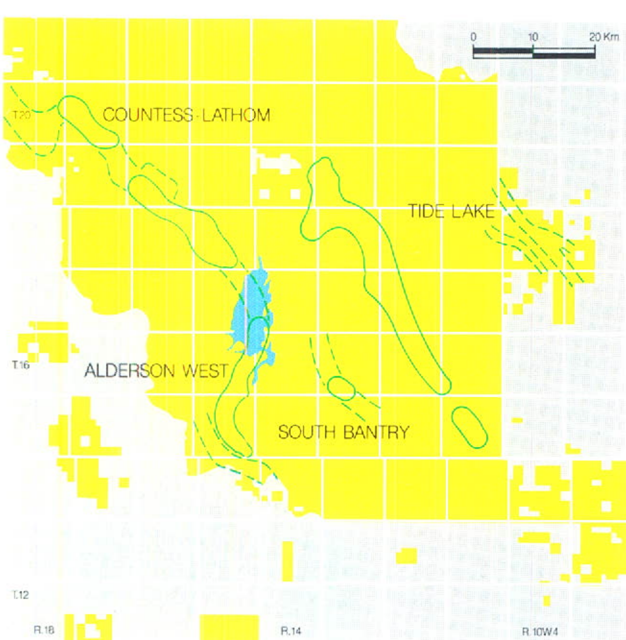
In 1983, the Company was active throughout southern Alberta, central Alberta and the Peace River area of northern Alberta.

The main areas of exploration in southern Alberta included South Bantry, Tide Lake, Countess-Lathom and Alderson West. At South Bantry, PanCanadian drilled seven wells to further evaluate an earlier discovery in the Basal Quartz sandstone, all of which were successful oil wells. In the Tide Lake area, a total of 20 joint wells were drilled resulting in 11 oil wells and nine gas wells. In addition to the development of oil reserves in the Basal Quartz, significant gas reserves were encountered in the Viking and Basal Colorado sandstones. As a result of three oil discoveries in Countess-Lathom, increased exploration activity is anticipated. In Alderson West, Glauconitic reservoirs were extended by the drilling of 21 oil wells and six gas wells. Drilling will continue in 1984 to further evaluate these areas.

In central Alberta, drilling continued in the Fenn West, Highvale and Wavy Lake areas. In the Fenn West area, the Company participated in three successful oil wells, one of which is producing approximately 1 500 barrels a day. PanCanadian extended the Highvale field with the drilling of seven Ostracod oil wells and an additional six wells are proposed for 1984. In the Wavy Lake area, 44 wells were drilled resulting in 19 oil wells and 11 gas wells.

In the Peace River region of northern Alberta, activity was concentrated at Tangent and Utikuma. At Tangent, the Company participated in six successful oil wells during the year. The most significant well drilled, in which PanCanadian has a 50% working interest, production-tested at a rate of 1 339 barrels a day and has an allowable of 503 barrels a day. Exploration will continue in this area in 1984. At Utikuma, where the Company has various working interests, eight oil wells were drilled with partners.

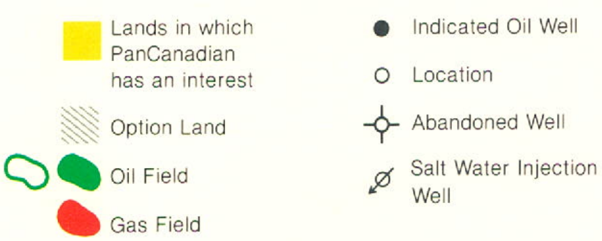
Southeastern Alberta



Tangent

Saskatchewan

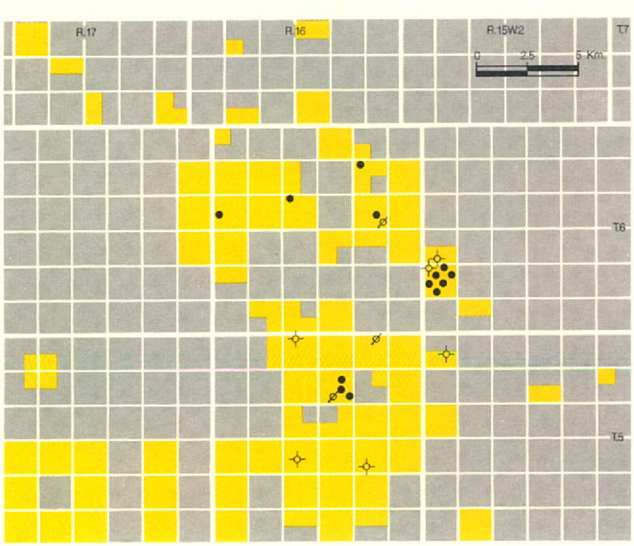
An active exploration program was undertaken in the Tatagwa and Neptune areas of southeastern Saskatchewan during 1983. At Tatagwa, PanCanadian drilled 10 wells resulting in seven oil wells. In addition, the Company participated in eight Mississippian tests in the Neptune area, four of which were cased as oil wells. A seismic program has been conducted and additional locations will be selected for 1984 drilling. Successful bids at Crown Sales during 1983 resulted in the acquisition of approximately 25 000 gross acres.



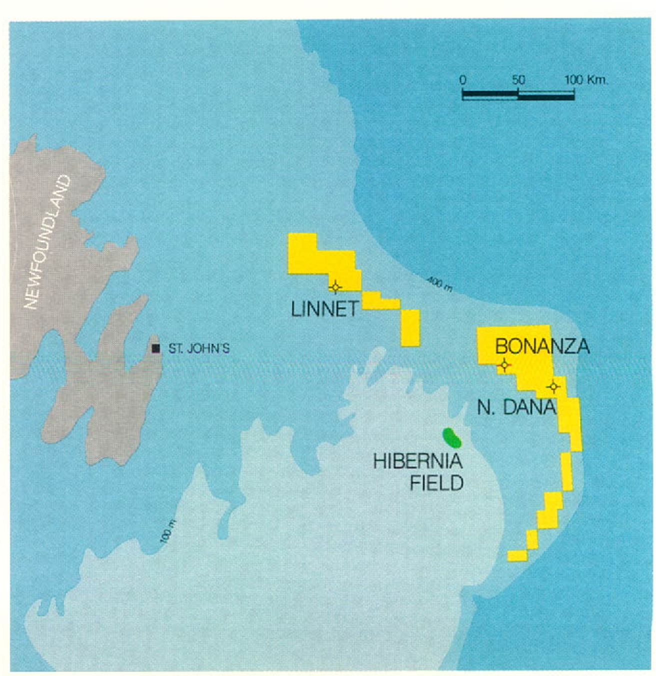
Offshore Eastern Canada

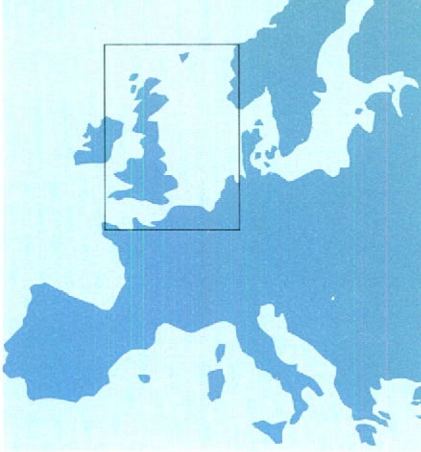
Mobil et al North Dana I-43, which commenced drilling in 1982 under the Grand Banks farmin agreement, was plugged and abandoned January 16, 1984. The well was drilled to a depth of 17 400 feet, 65 miles northeast of the Hibernia P-15 discovery well. The only interval tested flowed at a daily rate of 12.5 million cubic feet of natural gas and 285 barrels of condensate. An additional test was planned, however, due to mechanical problems the well had to be abandoned before the zone could be tested. Under the terms of the agreement, additional acreage can be earned by further drilling. Seismic evaluation of the area will continue in 1984.

Tatagwa-Neptune



Grand Banks





United States

During 1983, exploration drilling in the United States resulted in oil discoveries in Mississippi and Texas. An active leasing program continued during the year with the acquisition of 62 900 gross acres primarily in Texas, Mississippi, California, Wyoming and Kansas.

As a follow-up to a 1982 oil discovery, two additional oil wells were completed in the Reedy Creek Field of Jones County, Mississippi. Each of these wells is currently producing at a rate of 500 barrels a day. A fourth well was nearing completion at year-end. PanCanadian has a 25% working interest in these wells.

In Texas, four wells were drilled in the Saturday East Field, Fisher County and six wells were drilled in Clay County, resulting in eight oil wells. Further drilling is planned for 1984.

Late in 1983, activity in the Gulf of Mexico resumed with the drilling of two exploratory wells. One well, in which PanCanadian holds a 25% working interest, was drilling at year-end on East Cameron Block 65. The second exploratory well, in which the Company holds a 33⅓% working interest, was drilled on Eugene Island Block 43. In January 1984, the well was completed as a gas well and based on test results is expected to go on stream at a rate of 7 million cubic feet a day.

North Sea

In the United Kingdom sector of the North Sea, the bidding group in which PanCanadian is a 20% participant was awarded Block 48/16. Seismic exploration will continue in 1984 for selection of future drilling sites.

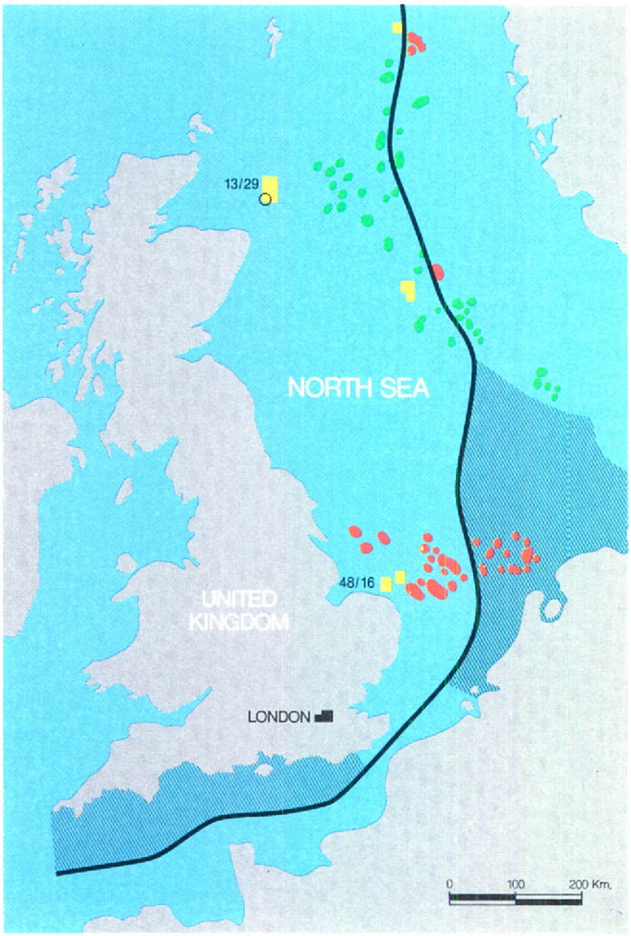
In January 1983, the first appraisal well on Block 13/29 was abandoned. It was drilled as a follow-up to the initial well drilled in 1981 which flowed oil at a daily rate of 4 142 barrels during testing. Exploration continued on other blocks acquired previously in the United Kingdom sector of the North Sea.

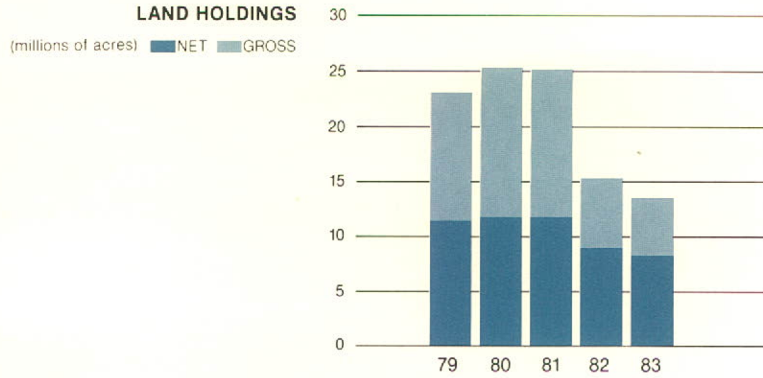
In preparation for North Sea licensing rounds, PanCanadian is participating in two exploration groups conducting geological and geophysical studies.

Panarctic

Panarctic Oils Ltd., in which PanCanadian has an 8% interest, drilled three offshore wells and one onshore well during the 1982-1983 drilling season. Cape McMillan 2K-15, a wildcat drilled offshore Ellef Rignes Island, was a dual zone oil and gas discovery. Cisco K-58 was the third successful delineation well in the Cisco oil field, while in the Edinburgh Sea, Grenadier A-26 was drilled and abandoned. On Sabine Peninsula, Maryatt K-71, the first well of the deep Permo-

North Sea





Pennsylvanian program was abandoned although some gas shows were encountered.

During the 1983-1984 winter season, drilling will continue with the second onshore Sabine Peninsula deep well, offshore delineation wells at Cisco and Skate, and a wildcat offshore Buckingham Island.

Coal

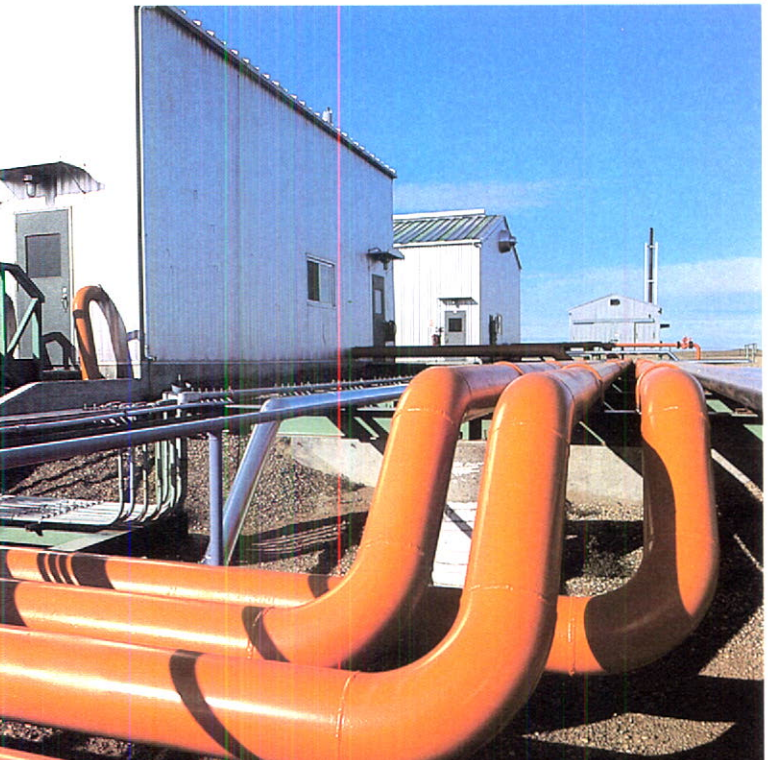
During 1983, PanCanadian's coal exploration program continued in southern Alberta with the drilling of 63 test holes totalling 47 000 feet. The drilling delineated an additional 79 million short tons of high quality underground recoverable subbituminous coal.

Working Interest Holdings in Petroleum & Natural Gas Rights

	December 31, 1983		December 31, 1982	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Canada				
Alberta	7 914 194	6 576 625	8 161 098	6 646 253
Baffin Bay	2 010 081	150 756	2 010 081	150 756
British Columbia	691 340	311 033	760 078	341 955
Manitoba	271 188	266 002	276 566	267 636
Northwest Territories and Yukon Territory	301 655	65 439	325 258	83 911
Offshore – Newfoundland	128 485	12 849	63 780	6 378
Saskatchewan	553 431	510 329	679 233	533 382
	11 870 374	7 893 033	12 276 094	8 030 271
United States				
California	29 968	14 044	22 055	7 866
Colorado	51 810	13 674	169 581	46 457
Kansas	73 430	53 070	65 110	48 847
Mississippi	17 494	6 619	27 793	7 737
Montana	36 149	20 306	85 924	56 864
Nebraska	21 360	17 500	24 120	17 321
Nevada	103 788	103 788	103 379	103 379
North Dakota	858 406	217 401	1 657 097	406 929
Offshore	25 760	5 742	59 360	10 672
Texas	112 865	51 777	157 567	66 099
Utah	115 584	34 683	318 209	111 444
Wyoming	69 948	38 420	66 462	39 744
Other	22 260	11 223	28 047	12 817
	1 538 822	588 247	2 784 704	936 176
International				
North Sea (United Kingdom)	244 826	44 732	183 871	32 541
North Sea (Netherlands)	—	—	103 537	5 177
	244 826	44 732	287 408	37 718
TOTAL	13 654 022	8 526 012	15 348 206	9 004 165
Acreage under lease or sub-lease, reserving to PanCanadian, or its subsidiaries, royalties or other interests		3 186 044		3 330 459

NOTE: Does not include PanCanadian's interest in Minerals Ltd. and Panarctic Oils Ltd.

Reserves



PanCanadian's 1983 year-end proven and probable reserves, before deduction of royalties, were 3 949 billion cubic feet (bcf) of marketable natural gas, 157.2 million barrels of conventional crude oil and natural gas liquids and 2.1 million long tons of sulphur. The Company's share of permitted Syncrude reserves was 39.7 million barrels of synthetic crude oil. Coal reserves amounted to 2 103 million short tons.

Reserve additions, resulting from successful drilling efforts as well as engineering reviews, have replaced approximately 127% of the 1983 production of conventional crude oil, natural gas liquids and natural gas on an oil equivalent basis.

At December 31, 1983, the Company's total reserves before royalty, including synthetic crude oil, were 855.0 million barrels of oil equivalent representing a 0.9% increase when compared with the 1982 total of 847.7 million barrels.

Natural Gas

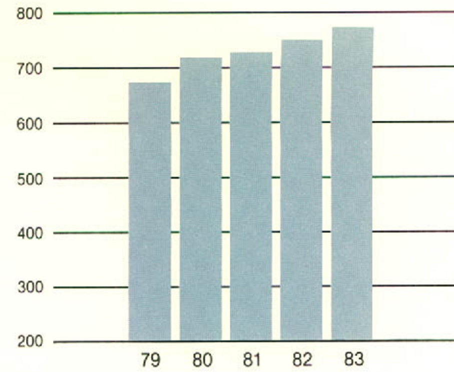
PanCanadian's proven and probable remaining marketable natural gas reserves, before royalty, increased to 3 949 bcf. Reserve additions of 171 bcf due to drilling and a downward revision of 44 bcf due to engineering review, together represented 113% of the year's production of 112 bcf. Based on the 1983 production rate, the Company's reserve life index for natural gas is 35.3 years. This compares to 32.0 years for 1982.

Conventional Crude Oil and Natural Gas Liquids

The 1983 exploratory and development drilling program resulted in reserves additions of 12.7 million barrels of conventional crude oil and natural gas liquids. Engineering reviews have added a further 9.1 million barrels. These additions exceeded the 15.1 million barrels of production in 1983 resulting in a 145% replacement. The year-end 1983 reserves of conventional crude oil and natural gas liquids, before royalty, are 157.2 million barrels as compared to the December 31, 1982 total of 150.4 million barrels. Based on 1983 production, the reserve life index for conventional crude oil and natural gas liquids is 10.4 years. This compares to 11.1 years for 1982.

TOTAL RESERVES

(millions BOE after royalty)
six thousand cubic feet of gas equals one barrel of oil equivalent (BOE)



Coal

Proven and probable reserves of coal, before royalty, totalled 2 103 million short tons, representing an increase of 78 million short tons. Of these reserves, 1 066 million short tons are surface recoverable while 1 037 million short tons are underground mineable.

The addition of 79 million short tons from 1983 exploration was partly offset by production of one million short tons of coal.

Proven and Probable Reserves

	Marketable Natural Gas	Conventional Crude Oil & Natural Gas Liquids	Sulphur	Coal	Synthetic Crude Oil
	(billion cubic feet)	(thousand barrels)	(thousand long tons)	(million short tons)	(thousand barrels permitted)
Reserves at January 1, 1983	3 934	150 433	2 439	2 025	41 553
Addition (Deletion): Drilling	171	12 692	—	79	
Reviews	(44)	9 140	(291)	—	
	127	21 832	(291)	79	
Less: Production	112	15 102	96	1	
Reserves at December 31, 1983 (Before Royalty)	3 949	157 163	2 052	2 103	39 664
Less: Royalty Deductions	196	15 716	17	10	
Reserves at December 31, 1983 (After Royalty)	3 753	141 447	2 035	2 093	
Proven Reserves at December 31, 1983					
Before Royalty	2 888	117 633	1 533	959	
After Royalty	2 736	104 456	1 519	952	
Probable Reserves at December 31, 1983					
Before Royalty	1 061	39 530	519	1 144	
After Royalty	1 017	36 991	516	1 141	

NOTES:

Reserves figures are calculated by Company engineers.

Volumes do not include the Company's interest in Panarctic Oils Ltd., Minerals Ltd., or sulphur from the Syncrude project.

Proven reserves are those quantities of crude oil, natural gas, natural gas liquids and sulphur which analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions.

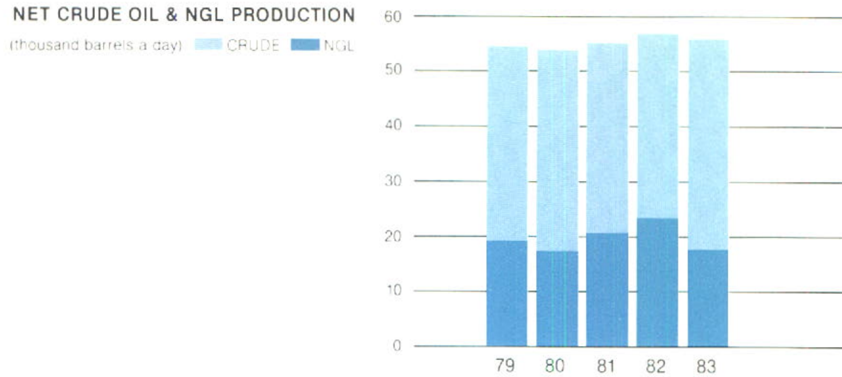
Probable reserves are those additional quantities estimated to be commercially recoverable from known oil and gas fields, as a result of the effect of the future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Marketable natural gas comprises gases from which certain hydrocarbon and non-hydrocarbon compounds have been removed or partially removed by processing where necessary to meet pipeline or other market specifications, and are measured at a base pressure of 14.65 psia and base temperature of 60°F.

Surface recoverable coal reserves include coal to a maximum strip ratio of 15 cubic yards of overburden to one ton of coal, to a maximum depth of 150 feet.

Synthetic oil quantities represent the Company's share of permitted synthetic crude oil conforming with the Alberta Energy Resources Conservation Board permit.

Production

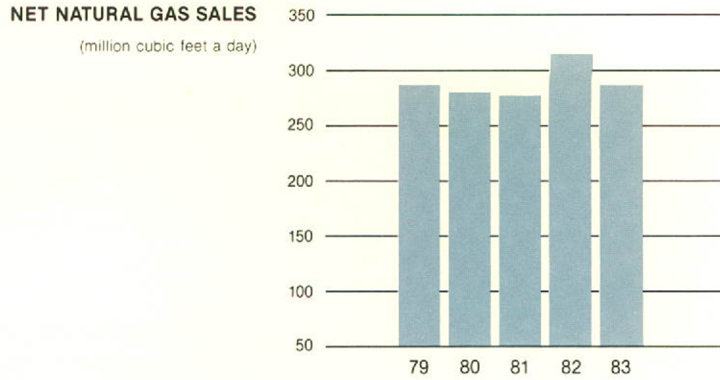


PanCanadian's production of conventional crude oil in 1983 improved over 1982 as a result of a strong market demand for all grades. Total deliveries of natural gas, however, were reduced from 1982 levels, as were sales of natural gas by-products.

Production of conventional and synthetic crude oil and natural gas liquids in 1983 averaged 55 690 barrels a day compared to 56 821 barrels a day in 1982, a decrease of 2%. Natural gas sales volumes averaged 288.3 million cubic feet a day, representing a decrease of 9% from the 315.8 million cubic feet a day reported last year.

Conventional Crude Oil

Road construction programs in the United States created increased export demand for heavy crude oil. PanCanadian, being a major producer in the heavy oil fields of southern Alberta, took advantage of that



market by arranging a significant sale to a United States refiner. Canada's National Energy Board supported the opportunity for increased sales of heavy crude oil in the United States and, for the first time in a number of years, the government approved the export of light crude oil. Both of these had a positive impact on PanCanadian production.

The Alberta Energy Resources Conservation Board has provided further incentive by increasing oil well minimum base allowables from 31 to 50 barrels a day effective February 1, 1984.

PanCanadian's average daily conventional crude oil production of 34 169 barrels in 1983 was 11% higher than the 30 796 barrels achieved in 1982. The maintenance of production levels was due to higher demand for heavy crude oil from southeastern Alberta and for both light and medium gravity crude oil from Saskatchewan. By year-end, as a result of drilling and reclassifications, the production qualifying for New Oil Reference Price (NORP) totalled approximately 10 400 barrels a day compared with 2 800 barrels a day reported at the end of 1982.

In southeastern Alberta, two waterflood schemes for secondary recovery were initiated at Alderson West during 1983. These schemes for pressure maintenance are expected to increase production by 880 barrels a day during 1984. A total of 23 oil wells commenced production in the Alderson West area during the year, while a further 21 oil wells were put on stream in the South Bantry, Tide Lake and Countess-Lathom areas.

Activity also continued in other parts of Alberta. In the east-central portion of the province, 12 infill wells were drilled on the most promising section at Lindbergh. Various methods of stimulating production of Lindbergh heavy crude oil were examined and an experimental steam injection scheme has been initiated. Early in 1983, a battery consolidation project to improve operational efficiency was completed at Wembley, near Grande Prairie. Elsewhere in northern Alberta, activity continued at Rycroft, where seven additional oil wells went on production.

In southern Alberta, the Countess enhanced oil recovery fireflood pilot project, which commenced in 1982, progressed satisfactorily throughout 1983. Successful ignition was achieved and further monitoring to evaluate the fireflood performance will continue in 1984. At Horsefly Lake, also in southern Alberta, the Company is pursuing a caustic-polymer flood pilot project. Injection is expected to commence in the fall of 1984.

Activities in Saskatchewan were of particular interest during 1983. The provincial government approved the reclassification of 25% of the Weyburn Unit's production from Old to New Crown Royalty status and this production qualified for NORP effective September 1, 1983. These events provided the economic justification to replace the 20-year-old water injection plant and water injection lines. The new plant is expected to be on stream late in 1984 and the line replacement program will be ongoing. Elsewhere in Saskatchewan, land holdings at Tatagwa and Neptune were drilled and seven additional oil wells were put on stream. The Company's average production rate in these areas at year-end was 310 barrels a day.

Synthetic Crude Oil

The Syncrude oil sands plant operated at close to design capacity for most of the year and the year's production surpassed 40 million barrels. Royalty deferrals allowed under an agreement reached with the Government of Alberta resulted in improved economics allowing Syncrude to embark on a five-year plant expansion program. PanCanadian's net average production increased to 3 692 barrels a day in 1983, compared to 2 827 barrels a day in 1982.

Natural Gas

Domestic and export sales of natural gas declined in 1983 compared to 1982. The abnormally warm weather early in the year, energy conservation, price levels and the recession, all combined to reduce market demand for Canadian natural gas.

PanCanadian's net natural gas sales averaged 288.3 million cubic feet a day in 1983 representing a 9% decline from the 1982 average of 315.8 million cubic feet a day. The 1983 deliveries under PanCanadian's operated contracts averaged approximately 56% of contracted quantities. At the end of the year approximately 89% of PanCanadian's natural gas reserves were under contract.

At Hussar-Crowfoot, the construction of a gas plant to process gas from 16 wholly-owned gas wells was completed ahead of schedule in late September. During the subsequent test period, maximum contract rates of 24.1 million cubic feet a day were sustained. The drilling of 109 wholly-owned shallow gas wells is nearing completion and construction of gathering, compression and dehydration facilities has commenced for November 1984 start-up.

Exploitation of PanCanadian's shallow gas potential continued in areas other than Hussar-Crowfoot. In Cassils 14 wells were drilled and tied in. In Tide Lake 10 wells were completed and tied in while in Bantry North 20 wells were tied in.

A three million cubic feet a day gas-sweetening plant to treat sour gas associated with Alderson West oil production became operational in October. At Jumping Pound, in the foothills west of Calgary, the jointly-owned gas facilities were modernized and upgraded to improve liquid and sulphur extraction.

Natural Gas Liquids

PanCanadian's total daily natural gas liquids sales in 1983 were 17 829 barrels, a decrease of 23% compared to the 23 198 barrels achieved in 1982.

Approximately 77% of PanCanadian's 1983 natural gas liquids production is attributable to the Empress plants which process downstream gas already on its way to market through the main pipeline. The decline in natural gas production experienced by the industry in 1983 was accompanied by a decline in the associated production of natural gas liquids. PanCanadian's share of sales of the natural gas liquids extracted at Empress was 13 776 barrels a day which is 31% lower than the 1982 daily average of 19 851 barrels.

The remaining 23% of PanCanadian's 1983 natural gas liquids production was associated with field extraction facilities. The sales from these facilities averaged 4 053 barrels a day in 1983 representing a 21% increase from the 3 347 barrels a day averaged in 1982.

Sulphur

PanCanadian's average daily sulphur sales of 267 long tons in 1983 were 38% lower than the daily average of 431 long tons in 1982. Inventory at year-end, before royalty, was 150 664 long tons.

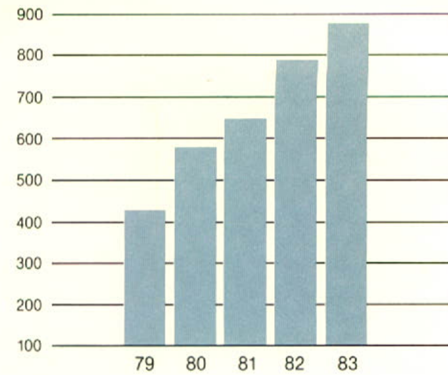
Methanol

Commercial production of methanol from the Edmonton plant commenced in January 1983. The plant has proved capable of running at 115% of its design capacity of 2 100 tonnes a day. PanCanadian has a 35% interest in the plant and the Company's share of methanol production during 1983 averaged 582 tonnes a day.

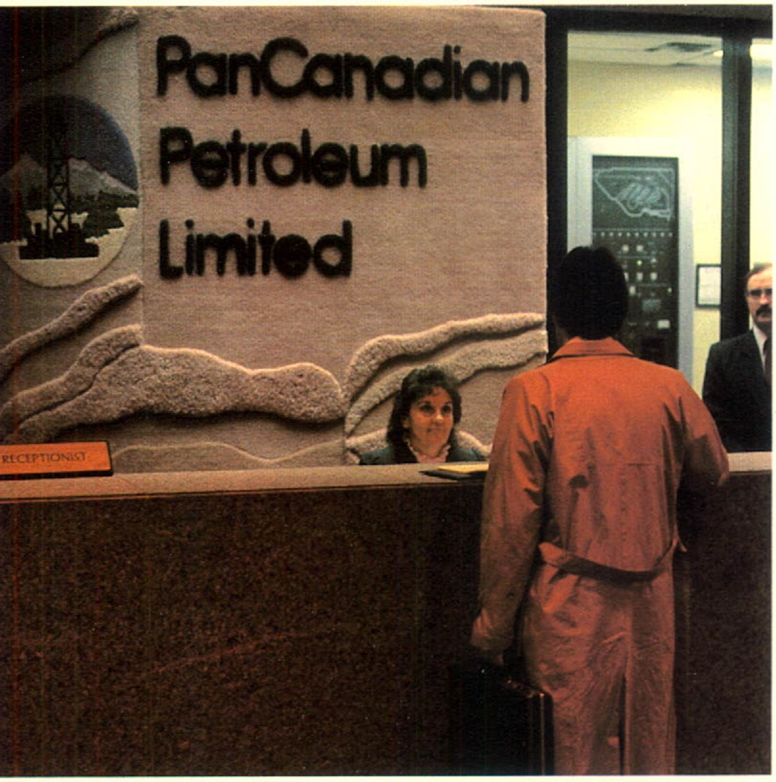
SI Conversion Table

To Convert From	To	Multiply by
Acre (ac)	hectare (ha)	0.404 69
Foot (ft)	metre (m)	0.304 80
Barrel (bbl)	cubic metre (m^3)	0.158 91
Thousand Cubic Feet (mcf)	cubic metre (m^3)	28.173 99
Long Ton (l.t.)	tonne (t)	1.016 05
Short Ton (s.t.)	tonne (t)	0.907 18

GROSS INCOME
(millions of dollars)



Financial



PanCanadian's net income for 1983 was $241.1 million, or $1.93 per share, compared to $230.7 million, or $1.85 per share in 1982. Increased revenues from higher crude oil production and selling prices were partially offset by decreased gas revenue and increased operating expenses and taxes. Funds from operations decreased 8% to $392.0 million, or $3.14 per share from $423.8 million, or $3.39 per share the previous year as a result of increased current income taxes.

In April 1983, the outstanding shares of the Company were subdivided on a four for one basis, resulting in 124 899 916 shares issued and outstanding. Comparative shares outstanding and per share amounts have been restated to reflect this subdivision of shares.

Revenues

Gross income from all sources, net of royalties, was $884.4 million, an increase of $91.8 million or 12% over last year. Major contributors to the increase in revenue were conventional and synthetic crude oil and methanol sales.

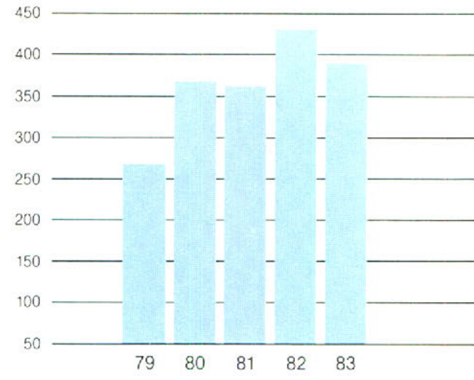
Revenue components in thousands of dollars are tabulated below.

	1983		1982		Increase (Decrease) From 1982	
	Amount	%	Amount	%	Amount	%
Crude Oil	$431 684	48.8	$325 455	41.0	$106 229	32.6
Natural Gas	280 994	31.8	305 557	38.6	(24 563)	(8.0)
Natural Gas Liquids						
- Produced	37 782	4.3	24 688	3.1	13 094	53.0
- Empress	86 398	9.7	106 008	13.4	(19 610)	(18.5)
Methanol	21 881	2.5	—	—	21 881	—
Sulphur	6 337	0.7	12 604	1.6	(6 267)	(49.7)
Other	19 311	2.2	18 287	2.3	1 024	5.6
	$884 387	100.0	$792 599	100.0	$ 91 788	11.6

Conventional crude oil revenue rose $97.2 million to $377.2 million, an increase of 35% from 1982. Of this increase, $30.7 million resulted from a volume increase and $66.5 million from price increases. Synthetic crude oil revenue from production at Syncrude was $54.5 million, a 20% increase over 1982. Weighted average prices received by

FUNDS FROM OPERATIONS

(millions of dollars)



PanCanadian in 1983 were $30.24 a barrel for conventional and $40.45 a barrel for synthetic crude, compared to 1982 prices of $24.91 and $44.07 a barrel, respectively.

The wellhead price of crude oil increased $4.00 a barrel effective January 1, 1983. On June 30, 1983, the governments of Canada and Alberta amended the pricing provisions contained in the September 1, 1981 Memorandum of Agreement. As a result of the amendment, which covers the period from July 1, 1983 to December 31, 1984, the price which PanCanadian receives for oil discoveries prior to 1974 will be held at the current level of approximately $28.00 a barrel. Oil discovered between 1974 and 1981, which previously qualified for the Special Old Oil Price, will receive the New Oil Reference Price which for PanCanadian averages approximately $35.00 a barrel.

During 1983, a daily average production of approximately 7 400 barrels of oil, or 22% of the 1983 total conventional crude production, received the higher New Oil Reference Price.

Natural gas sales revenue decreased $24.6 million in 1983 as a result of a volume decrease of $25.3 million partly offset by a price increase of $0.7 million. Alberta border price increases of $0.25 a thousand cubic feet were received effective February 1 and August 1, 1983. These price increases were negated however, by a reduced export border flowback and a higher cost of service for transmission. The weighted average price received by PanCanadian for natural gas was $2.65 a thousand cubic feet, compared to $2.64 in 1982. Sales volume of natural gas in 1983 decreased 9% from the previous year.

Sales of natural gas liquids associated with the Company's natural gas production contributed revenue of $37.8 million, an increase of 53% from 1982. Of this increase, $7.9 million resulted from price increases and $5.2 million from increased sales volumes. The weighted average price received in 1983 rose to $25.54 a barrel from $20.21 in 1982.

Revenue from sales of natural gas liquids extracted at the Empress plants decreased $19.6 million or 18% due to a reduction in flow of natural gas through the plant. The average natural gas liquids sales price increased from $13.95 a barrel in 1982 to $15.85 a barrel in 1983, however sales volume decreased 31%.

Commercial production from the methanol plant commenced in January 1983. Revenue generated during the first year of operation was $21.9 million.

Sulphur sales revenue decreased to $6.3 million in 1983 from $12.6 million in 1982 due to lower volumes and prices. The average price received in 1983 was $64.99 a long ton compared to $80.03 in 1982.

Expenses

Total expenses, exclusive of income and revenue taxes, amounted to $365.2 million, an increase of 18% over the 1982 total of $308.5 million. Operating expenses, including $24.4 million for the methanol plant, totalled $192.5 million, an increase of 14% over the $169.5 million incurred last year. Operating expenses for conventional crude oil increased $6.9 million to $42.7 million, while expenses for natural gas and related products increased $2.9 million to $46.5 million in 1983. These increases were primarily due to higher mineral reserve taxes and an increase in the number of producing properties.

Operating expenses at Syncrude were $31.3 million, 7% higher than in 1982, resulting from an increase in production volume.

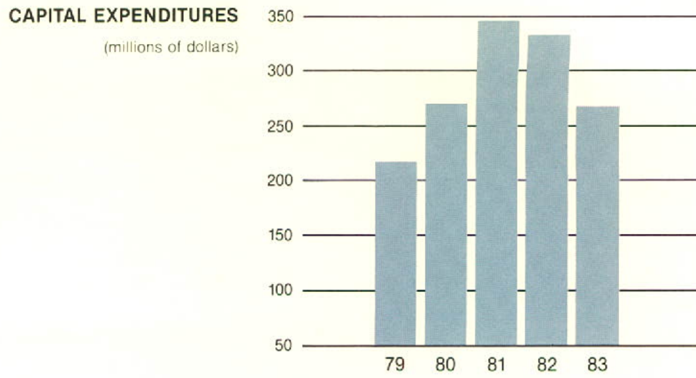
Operating expenses at the Empress liquids extraction plants decreased 22% to $47.6 million primarily due to the reduction in volumes of natural gas processed.

Administrative expenses rose 16% to $32.2 million in 1983, reflecting inflation and Company growth.

Interest expense increased 20%, mainly because interest associated with the methanol plant was capitalized during construction in 1982. This was partially offset by a reduction in long-term debt outstanding and lower interest rates. The provision for depreciation increased 54% as a result of the methanol plant and additional production facilities. The depletion provision increased 11% due to a higher net book value of depletable assets.

Taxes

Income and revenue taxes amounted to $278.0 million in 1983, an increase of 10% over the $253.4 million



reported in 1982. Taxes for 1983 represent 54% of pre-tax earnings, compared to 52% the previous year.

The 1983 provision for current income taxes was $166.3 million, an increase of $86.7 million from 1982. The increase is mainly attributable to increased revenues, elimination of earned depletion, reduced capital cost allowance on the methanol plant and the increase in petroleum incentive grants received in 1983. This increase was partially offset by the reduction of $67.9 million in the deferred income tax provision.

The Petroleum and Gas Revenue Tax increased 19% to $75.6 million in 1983 from $63.5 million. The Incremental Oil Revenue Tax was not in effect during 1983.

Capital Expenditures

During 1983, capital expenditures totalled $266.8 million, of which $234.8 million or 88% was expended on domestic operations. Of the balance, $30.4 million was spent in the United States and $1.6 million on other foreign operations. The reinvestment rate, representing capital expenditures as a percentage of funds from operations, was 68% compared to 78% in 1982.

Expenditures for land, exploration, exploratory and development drilling and Panarctic totalled $212.6 million or 54% of funds from operations, an increase of 7% from $198.0 million in 1982. Expenditures on plant, production and other equipment amounted to $54.2 million, a decrease of $78.9 million or 59% from 1982. The 1982 expenditures included $42.0 million for construction of the methanol plant.

Capital expenditure levels are before the estimated provision of $45.2 million for Petroleum Incentive Program grants associated with eligible exploration and development expenditures. Grants for 1982 amounted to $51.6 million. Both amounts are based on maximum incentive rates under this program.

Financial Position

At December 31, 1983 working capital was $107.3 million compared to $58.1 million at the end of 1982. During the year, PanCanadian issued $50 million of 12½% Canadian dollar debentures due April 1, 1993 in the European market. Proceeds from the issue were used to retire term bank loans. At year-end, long-term debt of $156.0 million represented 8% of total liabilities and shareholders' equity, compared to $177.9 million or 10% at the end of 1982. As at December 31, 1983, all of the Company's long-term debt was at fixed interest rates.

During 1983, PanCanadian received $16.7 million under TransCanada PipeLines Limited's Topgas Two program. The total deferred production income, resulting from take-or-pay provisions of gas purchase contracts, is $110.5 million at December 31, 1983. This represents approximately 67 billion cubic feet of prepaid volumes, which are expected to be returned as a portion of the volumes delivered during the first five months of each of the next 10 contract years, commencing November 1, 1984. At year-end, an estimated amount of $3.3 million, representing anticipated deliveries in 1984, has been reclassified to current liabilities.

Shareholders' equity increased to $1 041.8 million as a result of $241.1 million in net income less $112.4 million in dividends.

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited as at December 31, 1983 and the consolidated statements of income and retained income 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 consolidated financial statements present fairly the financial position of the Company as at December 31, 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 applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 9, 1984

PRICE WATERHOUSE
Chartered Accountants

Consolidated Statement of Income and Retained Income

For the Year Ended December 31, 1983

	1983	1982
	(thousands of dollars)	
Income:		
Operating revenue	$ 868 061	$778 866
Interest from affiliated company	9 419	6 025
Miscellaneous	6 907	7 708
	884 387	792 599
Expenses:		
Operating	192 533	169 522
Administrative	32 154	27 789
Interest on long-term debt	26 858	22 454
Depreciation	53 626	34 817
Depletion	60 076	53 954
	365 247	308 536
Income before income and revenue taxes	519 140	484 063
Provision for income and revenue taxes:		
Income taxes		
Current	166 287	79 591
Deferred	36 197	104 144
Petroleum and gas revenue tax	75 565	63 457
Incremental oil revenue tax	—	6 205
	278 049	253 397
Net income	241 091	230 666
Retained income at beginning of year	840 018	721 753
	1 081 109	952 419
Dividends – $0.90 per share (Note 6)	112 384	112 401
Retained income at end of year	$ 968 725	$840 018
Earnings per share (Note 6)	$1.93	$1.85

Consolidated Balance Sheet
December 31, 1983

Assets

	1983	1982
	(thousands of dollars)	
Current assets:		
Cash	$ 192	$ 479
Deposits with affiliated company (Note 2)	140 464	77 731
Accounts receivable	144 127	137 741
Petroleum incentives receivable	44 963	30 898
Inventories, at average cost –		
Products	15 656	14 352
Materials	4 069	2 891
	349 471	264 092
Property, plant and equipment, at cost (Note 3):		
Petroleum, natural gas and mineral properties	1 512 425	1 344 129
Plant, production and other equipment	752 384	700 694
	2 264 809	2 044 823
Less: Accumulated depletion and depreciation	(622 230)	(511 353)
	1 642 579	1 533 470
Investment in Panarctic Oils Ltd., at cost	22 684	23 604
Long-term notes receivable (Note 4)	32 927	32 927
Other assets	16 870	17 020
	$2 064 531	$1 871 113

Liabilities and Shareholders' Equity

	1983	1982
	(thousands of dollars)	
Current liabilities:		
Accounts payable and accrued liabilities	$ 145 067	$ 129 508
Income and revenue taxes payable	96 460	27 173
Current portion of long-term debt	625	49 335
	242 152	206 016
Long-term debt (Note 5)	156 000	177 875
Deferred credits:		
Deferred income	107 572	93 319
Deferred income taxes	517 029	480 832
	624 601	574 151
Shareholders' equity:		
Common shares –		
Authorized – unlimited number		
Issued – 124 899 916 (Note 6)	31 225	31 225
Paid in surplus	41 828	41 828
Retained income	968 725	840 018
	1 041 778	913 071
	$2 064 531	$1 871 113

APPROVED BY THE BOARD:

Robert W. Campbell Director

Bartlett B. Rombaugh Director

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1983

	1983	1982
	(thousands of dollars)	
Source of working capital:		
Net income	$241 091	$230 666
Expenses not requiring a current outlay of funds –		
Depreciation	53 626	34 817
Depletion	60 076	53 954
Deferred income taxes	36 197	104 144
Other	986	240
Funds from operations	391 976	423 821
Issue of debentures	50 000	—
Deferred income	14 253	52 350
Other	684	148
	456 913	476 319
Application of working capital:		
Petroleum, natural gas and mineral properties	212 565	196 700
Petroleum incentives	(44 269)	(51 009)
Plant, production and other equipment	54 199	133 106
	222 495	278 797
Investment in Panarctic Oils Ltd.	—	1 289
Petroleum incentives	(920)	(587)
Reduction of long-term debt	71 875	69 335
Dividends	112 384	112 401
Other	1 836	6 359
	407 670	467 594
Increase in working capital	49 243	8 725
Working capital at beginning of year	58 076	49 351
Working capital at end of year	$107 319	$ 58 076

Notes to Consolidated Financial Statements

December 31, 1983

1. Significant Accounting Policies:

a) Consolidation of Accounts

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned, and are presented in accordance with Canadian generally accepted accounting principles.

b) Foreign Currency Translation

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities – at the year-end rate of exchange.

Other assets and liabilities – at historical rates of exchange.

Income and expenses – at monthly rates of exchange except provisions for depreciation and depletion which are translated on the same basis as the related assets.

All gains or losses on conversion to Canadian dollars are included in income.

c) Full Cost Method of Accounting

The Company follows the full cost method of accounting for crude oil and natural gas properties whereby all costs relating to the exploration for and the development of conventional crude oil and natural gas reserves are capitalized on a world-wide cost centre basis. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven crude oil and natural gas reserves.

d) Depreciation of Property, Plant and Equipment

Depreciation is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets. The diminishing balance method is applied to all plant, production and other equipment at rates varying from 5% to 20%, except for the Empress gas processing facilities and Syncrude which are depreciated on the straight-line basis at 4% per annum, and the methanol plant which is depreciated on the straight-line basis at 10% per annum.

e) Deferred Income

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments are received for natural gas to be delivered at future dates. The Company records these payments as deferred income and takes them into income when the natural gas is delivered. The contracts further provide that the natural gas is expected to be delivered over a ten year period commencing November 1, 1984.

f) Capitalization of Interest

Interest related to financing arrangements on major projects is capitalized during the construction period.

g) Petroleum Incentives

Petroleum incentives which are earned by the Company pursuant to legislation enacted by the Federal and Alberta Governments are recorded as a reduction of the related oil and gas exploration and development expenditures.

2. Related Party Transactions:

Substantially all of the Company's funds which were surplus to its day to day requirements were invested in deposits of Canadian Pacific Enterprises Limited. These deposits carry interest at rates at least equal to the interest rates paid from time to time by a leading Canadian chartered bank on equivalent deposits.

In the normal course of business the Company purchases materials, utilizes services and leases office space from other companies with which it is affiliated. All such transactions have been conducted at arm's length during the year.

3. Property, Plant and Equipment:

	1983		1982	
	(thousands of dollars)			
	Cost	Accumulated Depletion & Depreciation	Cost	Accumulated Depletion & Depreciation
Petroleum, natural gas and mineral properties	$1 512 425	$408 719	$1 344 129	$348 833
Plant, production and other equipment				
Petroleum and natural gas	412 914	159 908	365 295	129 844
Syncrude	160 003	27 228	154 525	20 651
Methanol	130 375	12 862	132 233	—
Empress	49 092	13 513	48 641	12 025
	$2 264 809	$622 230	$2 044 823	$511 353

The methanol plant commenced commercial production in January, 1983.

4. Long-Term Notes Receivable:

Under the terms of a 1979 agreement for sale of equipment, the Company received notes which are payable in U.S. funds in four equal annual instalments commencing December 31, 1986. Interest accrues at 10⅞% and is payable semi-annually.

5. Long-Term Debt:

	1983	1982
	(thousands of dollars)	
Bank loans	$ —	$ 84 210
8⅛% secured debentures due March 1, 1992, sinking fund payments 1985 - 1991, secured by a first mortgage upon certain producing properties	19 750	20 500
8¾% secured debentures due November 1, 1992, sinking fund payments 1984 - 1991, secured by a first mortgage upon certain producing properties	21 875	22 500
9¾% unsecured debentures due November 15, 1983	—	35 000
16½% unsecured debentures due December 15, 1988	65 000	65 000
12½% unsecured debentures due April 1, 1993	50 000	—
	156 625	227 210
Less: Current portion	625	49 335
	$156 000	$177 875

With regard to the unsecured debentures, the Company has agreed that it and, subject to certain exceptions, its subsidiaries will not create any mortgage or other charge on their assets to secure any loan or other indebtedness which at the time of issue are intended to be traded on any stock exchange or publicly traded in the over-the-counter market in any part of the world unless the debentures then outstanding are similarly secured.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

(thousands of dollars)	
1984 –	$ 625
1985 –	1 375
1986 –	1 375
1987 –	1 375
1988 –	66 375

6. Common Shares:

Effective April 5, 1983, the issued and outstanding shares of 31 224 979 were subdivided on a four for one basis resulting in shares outstanding of 124 899 916. The comparative per share amounts have been restated to reflect this subdivision of shares.

7. Segmented Information:

The Company's only industry segment is the exploration for and the development and production of petroleum, natural gas and related products. The major geographic segments are as follows:

	1983			1982		
	Canada	United States & Other	Total	Canada	United States & Other	Total
			(thousands of dollars)			
Income	$ 864 093	$ 20 294	$ 884 387	$ 773 347	$ 19 252	$ 792 599
Segment operating income	$ 592 751	$ 13 323	$ 606 074	$ 546 486	$ 13 985	$ 560 471
Interest expense			(26 858)			(22 454)
Depletion			(60 076)			(53 954)
Income and revenue taxes			(278 049)			(253 397)
Net income			$ 241 091			$ 230 666
Identifiable assets	$1 814 791	$249 740	$2 064 531	$1 636 761	$234 352	$1 871 113

Supplementary Information

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

In 1982, the Financial Accounting Standards Board in the United States issued the Statement of Financial Accounting Standards No. 69 entitled "Disclosure About Oil and Gas Producing Activities". This document contains definitive rules for computing the discounted future net cash flows relating to a company's conventional oil and gas activities, and PanCanadian has prepared this data for the benefit of those investors who wish to have access to such information. The rules provide that:

1. the carrying value discounted at 10% of proved conventional oil and gas reserves be measured by applying year-end sales prices, or scheduled prices if contractual arrangements so provide, to the related reserve quantities less deductions for future costs which will be required to develop and produce those reserves, and estimated future income taxes.
2. the change in carrying value of proved oil and gas reserves from year-end to year-end due to production and development expenditures, additions and revisions to proved oil and gas reserves, and price changes be measured in a separate table.

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. Likewise, it follows that the inclusion of this information should not be interpreted as indicating that PanCanadian believes that valid inferences as to PanCanadian's probable measure of fair market value or future economic position can be derived therefrom. The method gives no recognition to the value that can be attributed to unproved acreage or to probable reserves that may be recovered from existing proved properties. The prescribed discount factor of 10% applied uniformly to all conventional oil and gas activities may not be appropriate in all circumstances, and the requirement that oil and gas price increases cannot be anticipated beyond those established at the year-end or by existing contractual arrangement may not be realistic over the estimated producing life of the reserves under consideration.

The standardized measure of PanCanadian discounted future net cash flows is set forth as follows:

1983	Canada	United States	Total
	(thousands of dollars)		
Future cash inflows	$10 925 117	$116 878	$11 041 995
Future production and development costs	2 862 877	25 713	2 888 590
Future income tax expenses	2 931 840	—	2 931 840
Future revenue tax expenses	1 162 600	—	1 162 600
Future net cash flows	3 967 800	91 165	4 058 965
10% annual discount for estimated timing of cash flows	2 153 365	30 676	2 184 041
Standardized measure of discounted future net cash flows	$ 1 814 435	$ 60 489	$ 1 874 924

1982	Canada	United States	Total
Future cash inflows	$11 085 024	$ 98 578	$11 183 602
Future production and development costs	2 497 366	21 687	2 519 053
Future income tax expenses	2 990 681	—	2 990 681
Future revenue tax expenses	1 281 116	—	1 281 116
Future net cash flows	4 315 861	76 891	4 392 752
10% annual discount for estimated timing of cash flows	2 380 517	24 605	2 405 122
Standardized measure of discounted future net cash flows	$ 1 935 344	$ 52 286	$ 1 987 630

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	1983	1982
	(thousands of dollars)	
Standardized measure of discounted future net cash flows at beginning of year	$1 987 630	$2 411 374
Add:		
Additions to proved reserves net of capital and production costs	131 268	126 521
Expenditures that reduced estimated future development costs	19 164	83 210
Accretion of discount	368 526	520 567
Revisions of previous estimates	101 553	646 197
Net changes in income and revenue taxes	74 108	799 418
	694 619	2 175 913
Less:		
Net changes in prices and production costs	244 399	2 058 285
Sales of oil and gas produced, net of production costs and mineral taxes	562 926	541 372
	807 325	2 599 657
Standardized measure of discounted future net cash flows at end of year	$1 874 924	$1 987 630

Future net cash flows for 1983 were computed using year-end prices and year-end statutory tax rates (adjusted for permanent differences) that relate to existing proved oil and gas reserves. 1982 future net cash flows were computed in a like manner except for incorporating the July 1, 1983 oil price increase which was provided for under the terms of the federal-provincial energy pricing and taxation agreements.

Oil and Gas Reserves (Unaudited)

The Company's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest, less all royalties and interest owned by others, or a royalty interest.

	Crude Oil (including natural gas liquids) (thousand barrels)			Natural Gas (billion cubic feet)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves: December 31, 1981	103 791	678	104 469	2 456	17	2 473
Revisions of previous estimates	3 363	(5)	3 358	96	2	98
Extensions and discoveries	5 188	292	5 480	126	6	132
1982 production	(12 244)	(218)	(12 462)	(113)	(2)	(115)
Net proved reserves: December 31, 1982	100 098	747	100 845	2 565	23	2 588
Revisions of previous estimates	7 717	92	7 809	138	(6)	132
Extensions and discoveries	9 264	490	9 754	116	5	121
1983 production	(13 703)	(249)	(13 952)	(102)	(3)	(105)
Net proved reserves: December 31, 1983	103 376	1 080	104 456	2 717	19	2 736

Proved reserves are considered to be those reserves which geological and engineering data demonstrate with a high degree of certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

Ten Year Statistical Review

(Dollar amounts in thousands except per share figures)

		1983	1982
Earnings	Gross Income	$ 884 387	$ 792 599
	Funds from Operations	391 976	423 821
	Per Share (1)	3.14	3.39
	Net Income	241 091	230 666
	Per Share (1)	1.93	1.85
Balance Sheet	Working Capital (Deficiency)	107 319	58 076
	Property, Plant & Equipment — Net	1 642 579	1 533 470
	Investments & Other Assets	72 481	73 551
	Long-Term Debt	156 000	177 875
	Deferred Income Taxes	517 029	480 832
Capital Expenditures	Exploration	179 550	169 510
	Development	33 015	27 190
	Production Facilities & Equipment	50 036	88 232
	Syncrude Project	6 021	2 873
	Methanol Plant	(1 858)	42 001
	Investment in Panarctic Oils Ltd.	—	1 289
	Petroleum Incentive Program Grants	(45 189)	(51 596)
Proven & Probable Reserves (after royalty except Synthetic Oil)	Natural Gas (billion cubic feet)	3 753	3 691
	Conventional Crude Oil & Natural Gas Liquids (thousand barrels)	141 447	134 254
	Synthetic Oil (thousand barrels before royalty)	39 664	41 553
	Sulphur (thousand long tons)	2 035	2 390
	Coal (million short tons)	2 093	2 015
Production (after royalty)	Natural Gas Sales (thousand cubic feet a day)	288 301	315 849
	Conventional Crude Oil & Natural Gas Liquids Production (barrels a day)	38 222	34 143
	Synthetic Crude Oil (barrels a day)	3 692	2 827
	Empress Plants Natural Gas Liquids Sales (barrels a day)	13 776	19 851
	Sulphur Sales (long tons a day)	267	431
	Methanol (tonnes a day)	582	—
Acreage	Gross (thousand acres)	13 654	15 348
	Net (thousand acres)	8 526	9 004
Shares & Dividends	Number of Shares Outstanding	124 899 916	124 899 916
	Number of Shareholders	3 464	3 848
	Dividends	112 384	112 401
	Per Share (1)	0.90	0.90
	Market Price Per Share — High (1)	31	23.19
	— Low (1)	20	12⅞

Valuation Day (December 22, 1971) Share Price $15¼ (Before the 1983 4-for-1 share division)

(1) The per share figures and shares outstanding for 1982 have been restated for comparative purposes to reflect the 4-for-1 share division in 1983. The previous years amounts are shown as originally reported.

1981	1980	1979	1978 (Restated)	1977	1976	1975	1974
$ 641 922	$ 574 687	$ 423 905	$ 333 762	$ 301 346	$ 206 941	$ 159 590	$ 130 572
362 728	367 312	268 107	233 797	186 096	134 440	99 756	74 557
11.62	11.76	8.59	7.49	5.96	4.31	3.20	2.39
203 737	241 367	165 830	155 883	126 546	85 033	68 663	46 243
6.52	7.73	5.31	4.99	4.05	2.72	2.20	1.48
49 351	27 151	38 050	72 393	57 816	25 327	(9 625)	11 748
1 343 125	1 109 904	906 246	804 114	504 765	428 327	342 957	278 626
67 071	66 606	67 495	33 619	31 955	29 328	25 996	23 696
247 210	176 425	204 390	271 855	119 632	130 447	81 429	89 946
376 688	290 299	228 921	181 144	144 174	118 723	101 302	89 317
143 049	184 514	153 892	131 878	74 645	57 032	30 980	30 285
26 158	34 805	13 245	16 200	18 941	14 923	13 622	9 675
83 088	46 200	33 595	28 657	16 444	45 081	38 510	9 356
2 540	4 287	13 095	163 046	—	—	—	—
90 232	—	—	—	—	—	—	—
2 208	154	1 364	1 536	3 014	2 876	3 155	1 764
(37 934)	—	—	—	—	—	—	—
3 509	3 499	3 174	2 683	2 448	2 366	2 384	2 298
140 232	138 381	144 746	146 336	152 963	165 851	185 945	194 493
43 442	43 827	44 879	57 000	—	—	—	—
2 841	2 949	2 918	2 990	3 436	3 773	4 756	4 076
1 989	1 979	1 842	1 748	1 490	860	485	—
279 844	281 351	289 855	275 861	273 036	231 691	223 623	226 285
34 123	35 632	36 484	32 700	33 834	30 395	33 546	39 273
2 776	2 875	1 238	—	—	—	—	—
18 017	15 175	16 465	14 281	12 163	9 980	9 363	11 979
430	436	283	246	230	143	139	218
—	—	—	—	—	—	—	—
25 224	25 261	23 112	23 149	28 905	30 256	31 793	39 686
11 851	11 935	11 596	11 566	13 362	13 059	15 311	16 426
31 224 979	31 224 979	31 224 979	31 219 534	31 219 534	31 219 534	31 219 534	31 219 534
4 266	4 581	4 767	5 119	5 363	5 905	7 170	7 492
112 399	99 909	54 632	35 583	29 653	27 784	26 847	19 355
3.60	3.20	1.75	1.14	0.95	0.89	0.86	0.62
97½	98	67½	38¾	36	25¾	17¼	14
65	60¼	38¼	30¾	23¾	15⅞	7⅝	7⅛

Printed in Canada
Design: Robert Saunders Graphics Ltd.