PanCanadian

Annual Report 1982

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 1 300 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, March 31, 1983. Notice of meeting, information 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
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. — 8.07%
Syncrude Canada Ltd. — 4%

FINANCIAL

(Dollar amounts in thousands except per share figures)

	1982	1981
Gross Income	$792 599	$641 922
Funds from Operations	423 821	362 728
Per Share	13.57	11.62
Net Income	230 666	203 737
Per Share	7.39	6.52
Dividends	112 401	112 399
Per Share	3.60	3.60
Capital Expenditures	331 095	347 275
Long-Term Debt at end of year	177 875	247 210
Working Capital at end of year	58 076	49 351

OPERATING

	1982	1981
Daily Production (After Royalty)		
Natural Gas – million cubic feet	315.8	279.8
Conventional Crude Oil and Natural Gas Liquids – barrels	53 994	52 140
Synthetic Crude Oil – barrels	2 827	2 776
Drilling Statistics – Working Interest Wells		
Exploratory Wells Drilled	308	311
Indicated Successes	200	202
Development Wells Drilled	171	219
Indicated Successes	159	206
Net Working Interest Acreage (thousand acres)	9 004	11 851

CORPORATE DIRECTORS

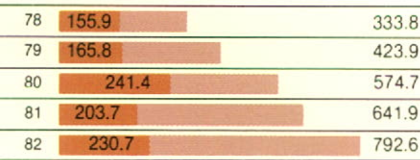
F.S. Burbidge Montreal, Quebec		Chairman and Chief Executive Officer of Canadian Pacific Limited
Robert W. Campbell Calgary, Alberta	*	Chairman of the Board of PanCanadian Petroleum Limited; Director, Vice Chairman and Chief Executive Officer of Canadian Pacific Enterprises Limited; Director of: The Algoma Steel Corporation, Limited; AMCA International Limited; Canadian Pacific Limited; Cominco Ltd.
Albert D. Cohen Winnipeg, Manitoba	†	President and Chief Executive Officer of General Distributors of Canada Ltd.
Jock K. Finlayson Toronto, Ontario		President of The Royal Bank of Canada
Vernon L. Horte Calgary, Alberta		President of V.L. Horte Associates Limited
G. Donald Love Edmonton, Alberta	†	Chairman and President 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 Fording Coal Limited; Panarctic Oils Ltd.
John C. Ross Lethbridge, Alberta	†	Rancher; President of The Milk River Cattle Company Limited
Ian D. Sinclair Toronto, Ontario		Chairman of Canadian Pacific Enterprises Limited
W.J. Stenason Calgary, Alberta		President 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

TO THE SHAREHOLDERS



GROSS & NET INCOME
(millions of dollars) NET GROSS

DURING 1982, PanCanadian generated revenues of $792.6 million, an increase of 23% over the $641.9 million in 1981. Net income for the same period increased 13% from $203.7 million in 1981 to $230.7 million, or from $6.52 per share to $7.39 per share in 1982. Funds from operations were $423.8 million or $13.57 per share, an increase of 17% from the $362.7 million or $11.62 per share of last year.

Capital expenditures in 1982, before deduction of Petroleum Incentive Program grants, were $331.1 million compared to $347.3 million in 1981, a decrease of 5%. Expenditures for exploration, including investment in Panarctic Oils Ltd., were $170.8 million compared to $145.3 million in 1981. Emphasis continued to be placed on the search for oil in western Canada. In addition, exploration activity was increased offshore eastern Canada and programs were conducted in the North Sea and in the United States. Expenditures on development projects amounted to $118.3 million compared to $111.8 million last year. Also, an expenditure of $42.0 million was incurred in 1982 for the completion of the methanol plant in Edmonton. Final cost amounted to $132.2 million of which $90.2 million was incurred in 1981. Construction and testing of the plant was completed by December, 1982 with commercial production beginning in January, 1983.

Daily production of crude oil and natural gas liquids, after royalty, averaged 56 821 barrels. This was a 3% increase from last year's daily average of 54 916 barrels and was due to higher liquids sales, primarily from Empress. Production qualifying for the New Oil Reference Price reached 2 800 barrels a day by year-end. Sales of natural gas increased 13% from 279.8 million cubic feet a day in 1981 to 315.8 million for 1982.

In 1982, gross additions to reserves on an oil equivalent basis replaced 156% of production. Remaining reserves of crude oil and natural gas liquids at year-end, before royalty, were 150.4 million barrels, compared to 156.8 million at the end of 1981. Natural gas reserves, before royalty, increased from 3 782 billion cubic feet in 1981 to 3 934 billion cubic feet. These figures exclude those attributable to Syncrude and Panarctic Oils Ltd.

Economic recovery in Canada is largely dependent upon worldwide economic improvement. Nevertheless, Canada can pursue opportunities within its control which will strengthen its own economy. Energy policy should place more emphasis on achieving expanded markets for domestic crude oil and natural gas, simplified pricing, stable royalty and tax regimes, and reduced administrative complexity. This could provide additional funds from crude oil and natural gas production and thereby support a higher level of investment in exploration and development activities. Through increased expenditure and its consequent stimulative effect upon other industries, the petroleum industry would make a strong contribution towards economic recovery.

The Canadian petroleum industry is experiencing significant shut-in crude oil production while domestic refiners are importing substantial quantities of crude oil. These refiners nominate for volumes of crude oil with no obligation to take delivery. In this way Canadian production serves as the swing supply. Domestic crude oil is thus dedicated to specific refiners, thereby reducing the amount which would otherwise be available to others. Measures which would require these refiners to take full deliveries of nominated crude oil would be a step towards reducing shut-in production. Such measures would continue to safeguard supply to Canadian refiners without jeopardizing other sales.

Opportunities exist to market surplus volumes of Canadian crude oil to both traditional and new buyers in the United States. These can be realized through timely approval of export applications, longer term licenses and competitive pricing. The recent granting by the National Energy Board of licenses for up to one year is a positive step and has enabled the industry to increase sales to historical customers and to attract new buyers. As a result, exports of heavy gravity crude oil will increase in 1983. We are also encouraged by the recent announcement of the National Energy Board that it is prepared to consider applications for the export of light gravity crude oil during 1983. We believe that these are significant

CAPITAL EXPENDITURES
(millions of dollars)

steps towards expanding the market for Canadian crude oil production.

International price for crude oil did not increase during 1982 and is likely to remain weak in the near term. Since Canadian crude oil prices are limited by the international price, the higher domestic prices forecasted in the 1981 intergovernmental agreements are no longer realistic. The level of industry activity, which could have been sustained under this forecast, cannot now be achieved. These circumstances provide the opportunity to return to a single price for Canadian crude oil.

With respect to natural gas, opportunities for major growth for the industry lie in increased sales to export markets. The recent authorization of exports to Canada's traditional export market of an additional 9.3 trillion cubic feet, mainly in the period from 1985 to 1994, provides the potential to increase the industry's cash flow over the longer term. However, sales under these new licenses still require final approval from the Federal government and the United States regulatory authorities. Canada must take the necessary steps to ensure that this natural gas is competitive in the market and that our natural gas continues to play an important part in the long term supply requirements of the United States.

A stable fiscal environment is essential for establishing and maintaining the investor confidence necessary for the planning and financing of long term industry activities. During 1982, temporary measures such as incentive programs and reduction or delay in implementation of federal petroleum revenue taxes were introduced to stimulate the industry. These measures, together with changes in provincial royalties, resulted in significant improvement in the level of activity in the latter part of the year. Continuation of these initiatives, on a longer term basis, would achieve the environment necessary to expand industry activities in 1983 and beyond.

Within the last decade, governments have increasingly introduced complex legislation and regulations to implement their policies. This has led to new and complicated systems and procedures for both the industry and governments with respect to taxation, incentive payments and other aspects of regulation. The resulting administrative complexities have become counter-productive for both the industry and government. Recent steps taken to simplify procedures such as those related to the determination of Canadian Ownership Rates are welcomed. Further simplification can be accomplished without detracting from the ability of the governments to achieve their objectives, while allowing the industry to benefit more quickly and fully from those policies which are intended to stimulate activities.

On April 29, 1982, Mr. Bartlett B. Rombough was appointed Chief Executive Officer, in addition to being President, and Mr. Robert W. Campbell, formerly Chairman and Chief Executive Officer, continues as Chairman of the Board of Directors. On May 31, 1982, Mr. C.B. Clark was appointed Executive Vice President.

In August, Mr. Paul A. Nepveu resigned from the Board of Directors because of other business commitments. The Directors have expressed appreciation for his valued contributions made during his term as Director and wish him well in other activities. The Board also welcomed Mr. Vernon L. Horte who was appointed as a Director.

The head office staff moved to our new headquarters, PanCanadian Plaza, in July. We thank our employees for their contributions to the results of the Company this year, and count on their efforts and co-operation for continued success in the future.

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 11, 1983

EXPLORATION

PANCANADIAN maintained an active exploration program in 1982 with an interest in 743 wells, compared to 1 082 in 1981. Of the wells drilled, 427 were exploratory and 316 were development wells.

The Company's exploration program was mainly directed towards the search for oil in western Canada and offshore eastern Canada. Exploratory wells drilled in western Canada totalled 365, of which 127 were oil and 135 were gas wells. Offshore eastern Canada, PanCanadian participated in two exploratory wells in addition to two wells which were drilling at year-end. Development drilling in western Canada resulted in an additional 124 oil wells and 131 gas wells.

In the United States, the Company had an interest in 102 wells, of which 56 were exploratory and 46 were development. PanCanadian participated in two wells in the North Sea, one in the United Kingdom sector and one in the Netherlands sector. In addition, one well was drilling at year-end in the United Kingdom sector.

ALBERTA

The main areas of activity in Alberta were Rycroft and Utikuma in northern Alberta, Genesee and Fenn-Big Valley in central Alberta, and Tide Lake and Alderson West in southern Alberta.

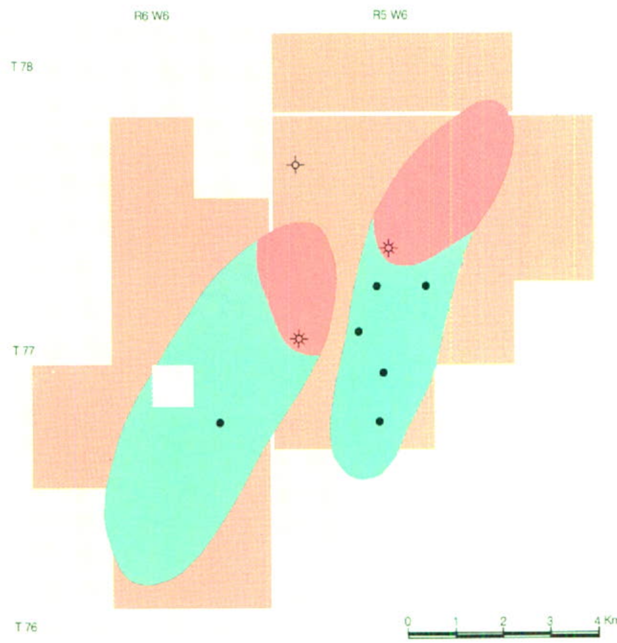
In the Rycroft area, where the Company has a 50% working interest in 16 960 gross acres, PanCanadian drilled nine joint exploration wells, of which six were completed as oil wells. Successful bids at Crown land sales increased the Company's land holdings by 9 120 gross acres. In the Utikuma area, seven Granite Wash Formation oil wells with varying working interests were drilled. One 37½% working interest well is currently producing 180 barrels a day. Exploration activity in these areas will continue in 1983.

PanCanadian has been acquiring and reviewing extensive seismic data in areas of central Alberta which are prospective Leduc reef plays. The Fenn-Big Valley area, in which PanCanadian has substantial land holdings, has received considerable industry interest. By year-end, the Company had participated in two wells and had three seismic crews conducting surveys. One of the wells, Decalta et al Fenn West 8-11-36-21 W4M, in which PanCanadian has a 25% working interest, was a successful test and initially flowed oil at a rate of 2 000 barrels a day. Further activities are planned for 1983. In the Genesee area, PanCanadian drilled seven wholly-owned oil wells. Further drilling will be undertaken in 1983 to delineate the field's northern boundary.

Results of exploratory drilling in southern Alberta continue to be encouraging. In the Tide Lake area, in which PanCanadian has a 53% working interest in 21 280 gross acres, nine oil wells and 14 gas wells were drilled. This drilling program has encountered a number of oil-prone Basal Quartz channels, and further exploration is planned for 1983. Company drilling activity in the Alderson West portion of the Irrigation Block continued, resulting in eight oil wells and five gas wells.

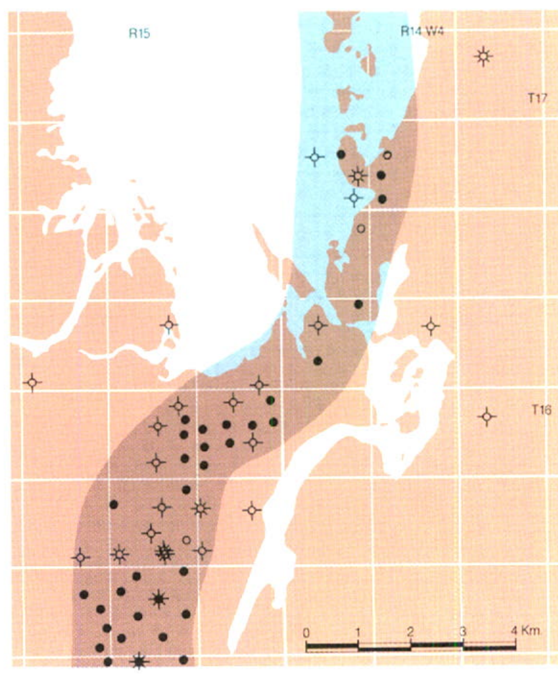
OFFSHORE EASTERN CANADA

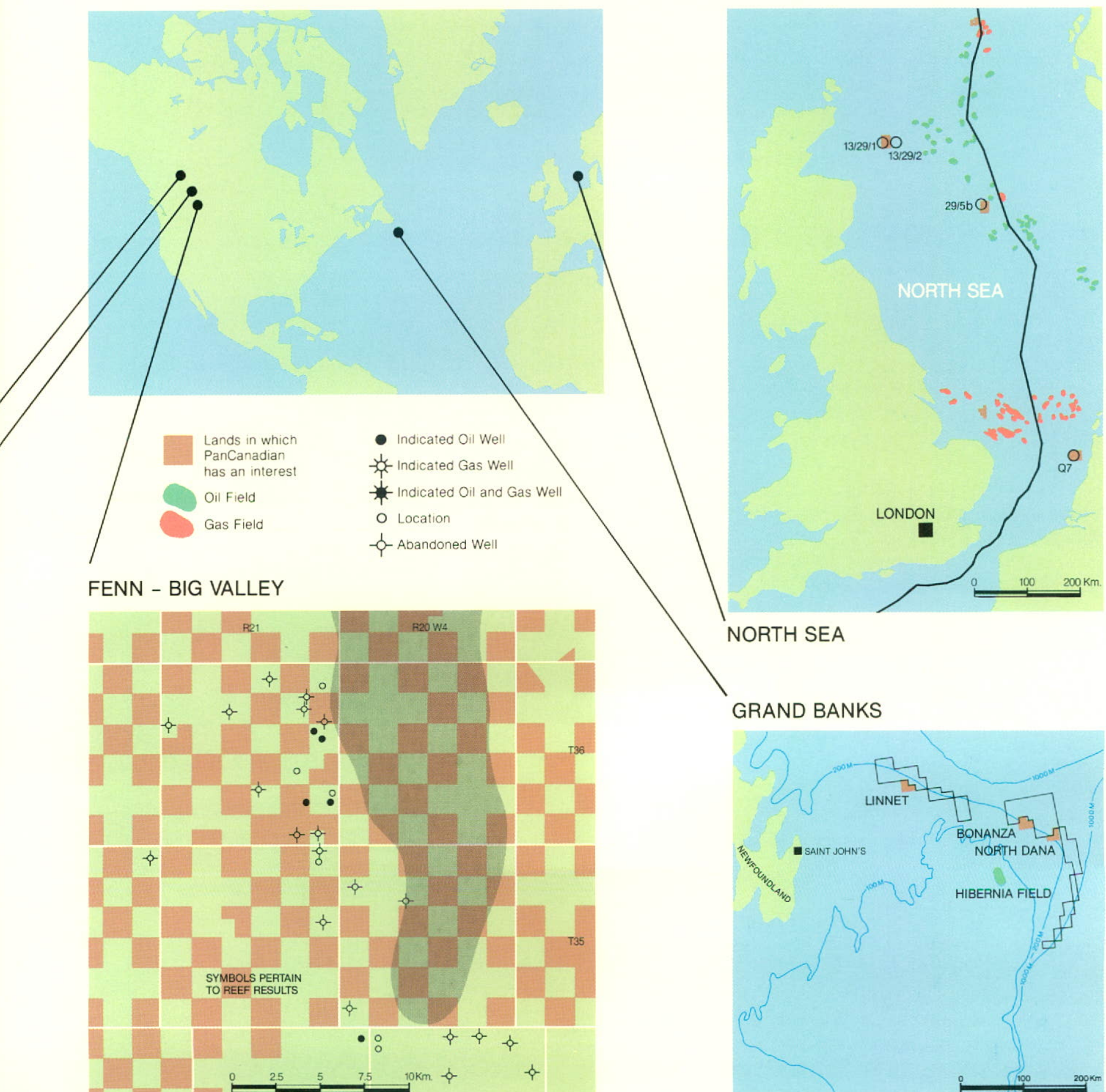
The Company's offshore activities were centered on a farmin agreement covering lands offshore Newfoundland and Labrador. Under this agreement, PanCanadian will earn a 10% working interest in 193 000 acres by paying 20% of the costs of three wells on the Bonanza, Linnet and North Dana Blocks. These lands are situated 60 to 120 miles northeast



RYCROFT

ALDERSON WEST




Lands in which PanCanadian has an interest
Oil Field
Gas Field
Indicated Oil Well
Indicated Gas Well
Indicated Oil and Gas Well
Location
Abandoned Well
FENN - BIG VALLEY
R21
R20 W4
T36
T35
SYMBOLS PERTAIN TO REEF RESULTS
0 2.5 5 7.5 10Km.
NORTH SEA
13/29/1
13/29/2
29/5b
Q7
LONDON
0 100 200 Km.
GRAND BANKS
LINNET
BONANZA
NORTH DANA
HIBERNIA FIELD
SAINT JOHN'S
NEWFOUNDLAND
0 100 200 Km

and northwest of the Hibernia oil discovery. The first well, Mobil et al Bonanza M-71, reached a total depth of 17 372 feet in January, 1983 and was dry and abandoned. The second well, Mobil et al Linnet E-63, was drilled to a depth of 14 829 feet and was dry and abandoned. The third well, Mobil et al North Dana I-43, started drilling operations on November 19, 1982. This well should reach a projected depth of 17 500 feet in mid-1983. A similar interest can be earned in an additional 180 000 acres by further drilling.

In the Baffin Island area, PanCanadian holds a 7½% working interest in a two million acre permit on which the Canterra et al Ralegh N-18 well was drilled. This well, located 15 miles east of the earlier Hekja gas and condensate discovery, reached a total depth of 12 657 feet and was subsequently plugged and abandoned. The Company is currently assessing the potential for further exploration in this area.

UNITED STATES

Exploration drilling in the United States resulted in discoveries in Mississippi, Texas and California. An active leasing program continued during the year, with the acquisition of 76 220 gross acres in California, Wyoming, Kansas, Texas, Louisiana and Mississippi.

An oil discovery, in which PanCanadian has a 25% working interest, was made at Reedy Creek in Jones County, Mississippi. The well is capable of producing at a rate of 500 barrels a day. A second well will be drilled early in 1983 to further evaluate this structure.

In the Jayton South area of Kent County, west Texas, the Company has a 37½% working interest in two oil discoveries. The combined production from the two wells is 120 barrels a day. Further development wells are planned in the near future.

Three successful exploratory gas wells were drilled in the Northwest Rio Vista area of Solano County, California, where the Company's interest averages 25% in a 3 200 acre prospect. Total productive capacity from two currently producing wells and the three exploratory wells is expected to exceed 12 million cubic feet a day. Further drilling is planned for 1983.

NORTH SEA

In the United Kingdom sector of the North Sea, a follow-up well on Block 13/29, 1.5 miles from a 1981 discovery well, was drilling at year-end. The well, in which PanCanadian has a 16⅓% working interest, was abandoned after reaching a depth of 10 892 feet in early January, 1983. A well was drilled on United Kingdom Block 29/5b to a depth of 11 050 feet and abandoned. PanCanadian has a 25% working interest in this block, and evaluation of this area will continue.

PanCanadian joined two bidding groups to evaluate the offshore blocks offered by the United Kingdom in its Eighth-Licencing Round. Applications were submitted by each of the groups and awards are expected to be announced by mid-April, 1983.

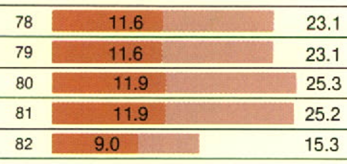
A well in which the Company had a 5% working interest was drilled in the Netherlands Block Q/7 to a depth of 8 022 feet and abandoned. No further exploration is planned for this area.

PANARCTIC

Panarctic Oils Ltd., in which PanCanadian has an 8% interest, drilled two wildcat and two delineation wells in the Arctic Islands. Of these wells, Sculpin E-08 encountered gas, Cisco F-42 encountered oil and Whitefish A-26 and Cape Mamen F-24 were dry and abandoned. Three additional wildcat wells and one delineation well are planned for the 1982-1983 drilling season. Panarctic has finalized exploration agreements with the Canadian Oil and Gas Lands Administration on substantially all its land holdings.

COAL

During 1982, PanCanadian participated in 93 test holes in southern Alberta with a total footage of 63 000 feet. This drilling delineated 37 million short tons of underground recoverable bituminous coal and eight million short tons of surface recoverable subbituminous coal. The most important reserve outlined was the Makepeace underground deposit, with estimated recoverable reserves of 34 million short tons.



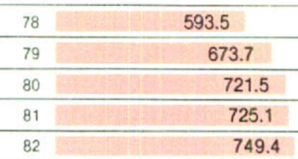
LAND HOLDINGS
(millions of acres) NET GROSS

Working Interest Holdings in Petroleum & Natural Gas Rights

	December 31, 1982		December 31, 1981	
	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA				
Alberta	8 161 098	6 646 253	8 076 656	6 317 798
Arctic Islands	—	—	575 921	67 308
Baffin Bay	2 010 081	150 756	2 010 081	150 756
British Columbia	760 078	341 955	899 275	390 222
Manitoba	276 566	267 636	276 781	268 622
Northwest Territories and Yukon Territory	325 258	83 911	930 618	569 291
Offshore Newfoundland	63 780	6 378	—	—
Saskatchewan	679 233	533 382	539 664	508 535
	12 276 094	8 030 271	13 308 996	8 272 532
UNITED STATES				
California	22 055	7 866	32 936	10 735
Colorado	169 581	46 457	181 302	47 691
Kansas	65 110	48 847	96 969	69 425
Mississippi	27 793	7 737	69 000	23 700
Montana	85 924	56 864	154 253	91 150
Nebraska	24 120	17 321	24 120	17 707
Nevada	103 379	103 379	106 214	106 214
North Dakota	1 657 097	406 929	1 775 392	432 530
Offshore	59 360	10 672	82 267	18 700
Texas	157 567	66 099	221 000	88 000
Utah	318 209	111 444	807 918	302 534
Wyoming	66 462	39 744	64 963	36 377
Other	28 047	12 817	11 666	10 729
	2 784 704	936 176	3 628 000	1 255 492
INTERNATIONAL				
Australia	—	—	8 000 000	2 285 712
North Sea (United Kingdom)	183 871	32 541	183 871	32 541
North Sea (Netherlands)	103 537	5 177	103 537	5 177
	287 408	37 718	8 287 408	2 323 430
TOTAL	15 348 206	9 004 165	25 224 404	11 851 454
Acreage under lease or sub-lease, reserving to PanCanadian, or its subsidiaries, royalties or other interests		3 330 459		3 331 919

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

RESERVES



TOTAL RESERVES

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

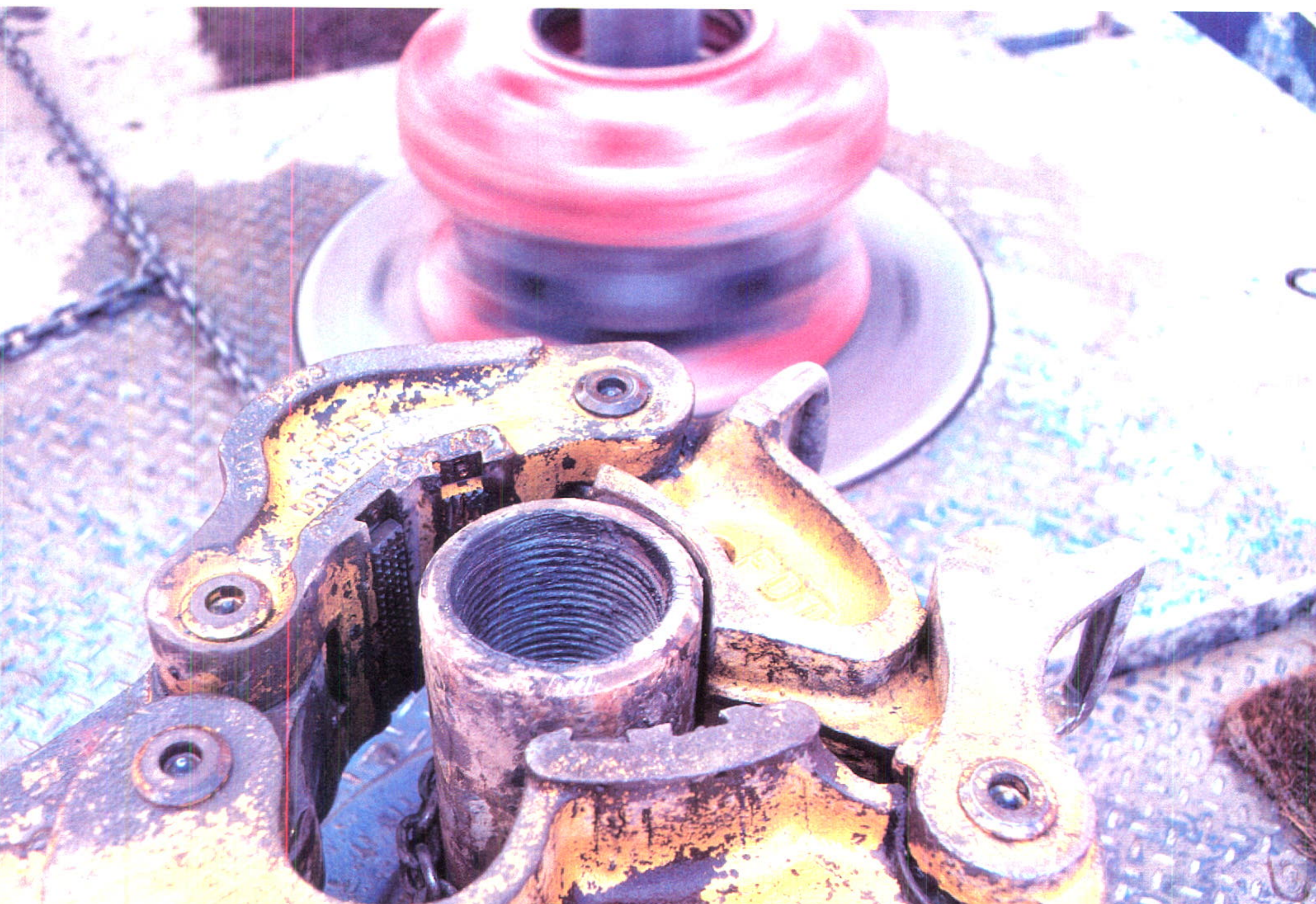
AT December 31, 1982, PanCanadian's proven and probable reserves, before deduction of royalty, were 150.4 million barrels of conventional crude oil and natural gas liquids, 3 934 billion cubic feet of natural gas and 2.4 million long tons of sulphur. The Company's share of Syncrude permitted reserves was 41.6 million barrels of synthetic crude oil. Coal reserves amounted to 2 025 million short tons.

Reserve additions of conventional crude oil, natural gas liquids and natural gas during 1982, resulting from drilling and engineering review, replaced approximately 156% of 1982 conventional production on an oil equivalent basis.

Total equivalent oil reserves, including synthetic crude oil, at December 31, 1982 were 847.7 million barrels.

CONVENTIONAL CRUDE OIL AND NATURAL GAS LIQUIDS

Year-end reserves of proven and probable conventional crude oil and natural gas liquids, before royalty, were 150.4 million barrels compared to 156.8 million barrels at the end of 1981. Reserve additions during 1982 were 7.2 million barrels representing approximately 53% of the year's production. Based on the 1982 production rates, before royalty, the reserve life index for conventional crude oil and natural gas liquids is 11.1 years.



NATURAL GAS

Proven and probable natural gas reserves, before royalty, increased to a year-end total of 3 934 billion cubic feet. Reserve additions during 1982 were 275 billion cubic feet representing approximately 224% of the year's production. Based on the 1982 production rates, before royalty, the reserve life index for natural gas is 32.0 years.

COAL

Proven and probable reserves of coal, before royalty, totalled 2 025 million short tons, an increase of 26 million short tons. Of these reserves, 1 067 million short tons are surface recoverable and 958 million short tons are underground mineable. The addition of 45 million short tons from 1982 exploration was partly offset by downward engineering revisions of 18 million short tons and production of one million short tons.

Proven and Probable Reserves

	Marketable Natural Gas (billion cubic feet)	Conventional Crude Oil & Natural Gas Liquids (thousand barrels)	Sulphur (thousand long tons)	Coal (million short tons)	Synthetic Crude Oil (thousand barrels permitted)
Reserves at January 1, 1982	3 782	156 766	3 021	1 999	43 442
Addition (Deletion): Drilling	147	6 219	—	45	
Reviews	128	945	(479)	(18)	
	275	7 164	(479)	27	
Less: Production	123	13 497	103	1	
Reserves at December 31, 1982 (Before Royalty)	3 934	150 433	2 439	2 025	41 553
Less: Royalty Deductions	243	16 179	49	10	
Reserves at December 31, 1982 (After Royalty)	3 691	134 254	2 390	2 015	
Proven Reserves at December 31, 1982					
Before Royalty	2 776	114 498	1 622	940	
After Royalty	2 588	100 845	1 595	933	
Probable Reserves at December 31, 1982					
Before Royalty	1 158	35 935	817	1 085	
After Royalty	1 103	33 409	795	1 082	

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.

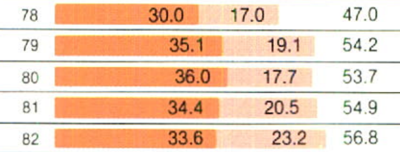
Proven reserves are those quantities of crude oil, natural gas, natural gas liquids and sulphur which analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions.

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 to conform with the Alberta Energy Resources Conservation Board permit.



NET CRUDE OIL & NGL PRODUCTION
(thousand barrels a day) CRUDE NGL

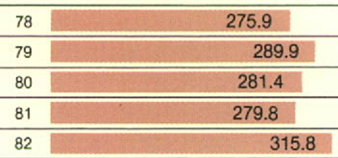
DURING 1982, PanCanadian experienced reduced sales of conventional crude oil while natural gas liquids sales increased substantially. Natural gas sales volumes were higher than last year as a result of contracts entered into in prior years and new properties coming on stream during the year.

Daily production of conventional and synthetic crude oil and natural gas liquids, after deduction of royalty, averaged 56 821 barrels in 1982, up 3% from 54 916 barrels in 1981. Net daily average sales of natural gas were 315.8 million cubic feet, an increase of 13% over the 279.8 million cubic feet reported in 1981.

CONVENTIONAL CRUDE OIL

Canadian refiners faced declining markets for all refined products during 1982, which led to reduced crude oil demand. Domestic crude oil supply absorbed the major portion of this decline, as refiners attempted to maintain offshore purchase commitments. The reduced demand for domestic crude oil impacted on PanCanadian's production.

In response to the decline in the first half of the year in Canadian demand for crude oil, PanCanadian and others actively pursued export sales opportunities in



NET NATURAL GAS SALES
(million cubic feet a day)

the United States. As a result of improved domestic demand and new export markets, the Company's sales approached productive capacity during the last half of the year.

PanCanadian's net average production of conventional crude oil was 30 796 barrels a day in 1982, a 3% decrease from 1981. Production from Canadian properties averaged 30 301 barrels a day, with the remainder coming from United States operations. Total net Company crude oil production eligible for the New Oil Reference Price averaged approximately 1 300 barrels a day during 1982. By year-end this production was averaging approximately 2 800 barrels a day.

A battery consolidation program commenced at Wembley in the Grande Prairie area of northwest Alberta and is scheduled for completion in early 1983. At Alderson West, in southeast Alberta, construction of a water injection facility was initiated in late 1982, with start-up planned for early 1983.

Seventy-two Company operated wells were placed on stream during the year, most notably in the Pembina-Genesee, Tide Lake, Alderson, Lindbergh and Rycroft areas of Alberta. Production from 57 of these wells qualifies for the New Oil Reference Price.

An active well workover program was conducted in Alberta, encouraged by the Alberta Well Service Incentive Program.

An enhanced oil recovery pilot project in the Countess area, designed to evaluate the application of fireflood techniques, was pursued during 1982. PanCanadian is the operator and has a 50% interest in this venture. The Company is continuing its investigation of other enhanced recovery applications and is evaluating several schemes which have been proposed for partner-operated pools.

SYNTHETIC CRUDE OIL

PanCanadian's share of production from the Syncrude oil sands plant averaged 2 827 barrels a day in 1982, a small increase over the daily average of 2 776 barrels in 1981. Operating problems caused fluctuations in production, resulting in an average throughput below design capacity. The plant has operated at full production level since the end of October.

On July 29, 1982, pipeline shipments by Syncrude had reached one hundred million barrels of crude oil.

NATURAL GAS

Industry sales of natural gas in Canada in 1982 showed a modest improvement over 1981. Higher consumption in the residential and commercial sectors across Canada during a cold first quarter, and increased petrochemical feedstock demand in Alberta have contributed to this improvement.

Despite the substantial increase in recent years of natural gas volumes licensed for exports to the United States, sales remained relatively unchanged in 1982. Weak market demand and surplus supply in the United States have combined to reduce the near term need for additional Canadian natural gas.

PanCanadian's net natural gas sales averaged 315.8 million cubic feet a day during 1982, an increase of 13% over 1981 sales of 279.8 million cubic feet a day. Production from Canadian properties accounted for 308.9 million cubic feet a day or 98% of the total. Productive capacity increased due to the completion of several natural gas projects during the year.

At Carseland, in southeast Alberta, construction of a natural gas processing plant and compressor station was completed in July. This wholly-owned project involved the tie-in of 11 wells with a total capability of 10 million cubic feet a day. A three well tie-in and a natural gas processing plant were completed at Long Coulee in April. At Hussar-Crowfoot, a project was initiated late in the year to tie in 16 wells along with associated facilities.

Activity in shallow gas areas of southeast Alberta continued during the year. Construction of natural gas gathering systems and compressor stations was completed at Gem and Rosemary, involving 116 and 110 wells respectively. These projects provided additional natural gas deliverability of 19 million cubic feet a day under existing contracts. At Atlee-Buffalo,

a 42 well infill drilling program was completed in late 1982.

Natural gas contracts covering up to 32 million cubic feet a day were entered into during 1982. Under these contracts, natural gas is dedicated to the United States market. The volumes to be delivered are dependent upon the outcome of regulatory proceedings.

Approximately 89% of PanCanadian's natural gas reserves are now dedicated under contracts.

NATURAL GAS LIQUIDS

Although weak market conditions resulted in low prices and sales volumes for propane and butanes during the first quarter of 1982, a rapid market recovery by mid-year provided sharply improved volumes and prices for the rest of the year.

PanCanadian's sales of natural gas liquids, extracted at the Empress plants, averaged 19 851 barrels a day in 1982, a 10% increase from 1981 sales of 18 017 barrels a day. Daily sales of natural gas liquids removed from PanCanadian's natural gas production at field locations averaged 3 347 barrels, up 34% from the 1981 average of 2 490 barrels. This increase reflected primarily the high liquid content of natural gas production from Hoadley and Wilson Creek, which came on stream late in 1981.

SULPHUR

PanCanadian's sulphur sales during 1982 averaged 431 long tons a day, compared to 430 long tons a day in 1981. Sales in 1982 exceeded production by 156 long tons a day and sulphur inventories at year-end, before royalty, were 150 066 long tons.

METHANOL

The methanol plant in Edmonton, Alberta commenced start-up operations on November 17, 1982. To date, no significant problems have been encountered in the start-up and early production stages. Market deliveries began in early 1983.

10 Year Production Review
After Royalty

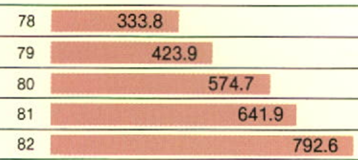
Year	Crude Oil* (thousand barrels)	Natural Gas Liquids (thousand barrels)	Crude Oil* and NGL (thousand barrels)	Natural Gas (million cubic feet)
1973	14 810	1 076	15 886	76 727
1974	13 289	1 046	14 335	82 594
1975	11 199	1 046	12 245	81 622
1976	10 141	984	11 125	84 799
1977	11 398	952	12 350	99 658
1978	10 949	987	11 936	100 689
1979	12 826	943	13 769	105 797
1980	13 178	916	14 094	102 975
1981	12 560	909	13 469	102 143
1982	12 272	1 222	13 494	115 285

* Includes conventional and synthetic crude oil.

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

FINANCIAL



GROSS INCOME
(millions of dollars)

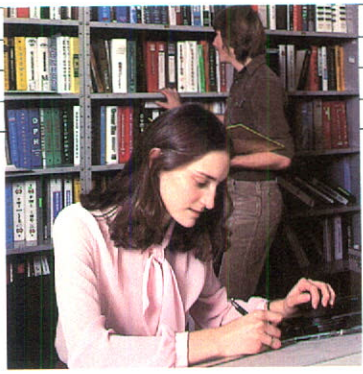
EARNINGS

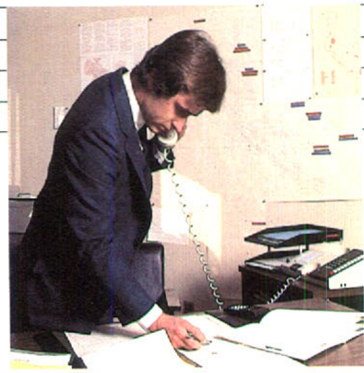
NET income for 1982 was $230.7 million, an increase of 13% from 1981 earnings of $203.7 million. Net income per share increased to $7.39 from $6.52 in 1981.

REVENUES

Of the 1982 crude oil sales revenues, $280.0 million was derived from conventional crude oil and $45.5 million from synthetic crude oil production at Syncrude. This represents increases of 33% for conventional crude oil and 8% for synthetic crude oil over revenues generated in 1981. The weighted average prices received by PanCanadian for conventional and synthetic crude oil were $24.91 and $44.07 a barrel respectively. These compare to the 1981 average prices of $18.25 a barrel for conventional crude oil and $41.64 a barrel for synthetic crude oil.

The average Alberta field price for Conventional Old Oil, defined as crude oil discovered prior to January 1, 1981, increased by $2.25 a barrel on each of January 1 and July 1, 1982. Effective January 1, 1982, crude oil discovered after December 31, 1980, receives the New Oil Reference Price adjusted for quality and location. The New Oil Reference Price is approximately equivalent to the current international price for crude





oil landed in Montreal. Effective July 1, 1982, crude oil discovered from 1974 to 1980 inclusively, receives the Special Old Oil Price adjusted for quality and location. The Special Old Oil Price is 75% of the current New Oil Reference Price in Montreal.

At year-end, the average Alberta field prices for these crude oil categories of comparable quality were approximately $25.80 a barrel for Conventional Old Oil, $31.45 a barrel for Special Old Oil and $44.15 a barrel for New Oil.

The increase in natural gas sales revenues resulted from higher prices and volumes. The average price received by PanCanadian for natural gas was $2.64 a thousand cubic feet in 1982 compared to $2.43 the previous year.

Revenue from sales of natural gas liquids, including ethane, extracted at the Empress plants increased $14.1 million due to greater sales volumes and higher prices. The 1982 average product price rose to $13.95 a barrel from $13.17 a barrel last year.

Revenues from natural gas liquids associated with the Company's natural gas production increased $8.6 million. The average price realized in 1982 was $20.21 a barrel, up from $17.70 a barrel in 1981.

The increase in sulphur revenue was due to higher prices. The average sulphur price was $80.03 a long ton in 1982 compared to $68.18 a long ton in 1981.

Revenue components in thousands of dollars are tabulated below.

	1982		1981		Increase (Decrease) From 1981	
	Amount	%	Amount	%	Amount	%
Crude Oil	$325 455	41.0	$252 940	39.4	$72 515	28.7
Natural Gas	305 557	38.6	248 419	38.7	57 138	23.0
Empress Plants – Natural Gas Liquids Sales	106 008	13.4	91 931	14.3	14 077	15.3
Natural Gas Liquids	24 688	3.1	16 092	2.5	8 596	53.4
Sulphur	12 604	1.6	10 711	1.7	1 893	17.7
Other	18 287	2.3	21 829	3.4	(3 542)	(16.2)
	$792 599	100.0	$641 922	100.0	$150 677	23.5

EXPENSES

Total expenses, exclusive of income and revenue taxes, were $308.5 million, a 19% increase over the 1981 amount of $260.1 million.

Operating expenses accounted for $169.5 million of the total, an increase of 26% over the previous year.

Conventional crude oil operating expenses increased to $35.8 million in 1982 or 40% above the $25.5 million recorded in 1981. Operating expenses for natural gas and related products amounted to $43.6 million in 1982, an increase of 33% over the 1981 amount of $32.9 million. These increases reflect higher mineral taxes, an expanded well workover program and an increase in the number of producing properties together with inflationary increases. Syncrude expenses in 1982 decreased 1% to $29.2 million from $29.5 million in the previous year.

Operating expenses for the Empress extraction plants amounted to $60.9 million compared to $46.8 million in 1981. The 30% increase was largely due to higher natural gas prices.

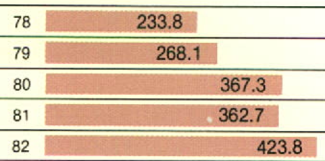
Administrative expenses totalled $27.8 million, a 35% increase over the $20.6 million recorded in 1981. Company growth and inflation accounted for this increase. Interest expense decreased 31% to $22.5 million as a result of decreases in the prime lending rate and debt reductions. Depreciation increased 23% to $34.8 million from $28.2 million in the previous year due to investments in additional production facilities.

Depletion expense was $53.9 million in 1982 compared to $44.2 million in 1981, a 22% increase.

TAXES

The combined income and revenue taxes amounted to $253.4 million in 1982 and represented 52% of pre-tax earnings.

Provision for current and deferred income taxes was $183.7 million in 1982 compared to $141.9 million in 1981. This represents an effective income tax rate of 38% in 1982 compared with 37% in 1981. The



FUNDS FROM OPERATIONS

(millions of dollars)

Petroleum and Gas Revenue Tax increased to $63.5 million in 1982 from $36.1 million in the previous year, an increase of 76%. Provision for the new Incremental Oil Revenue Tax during the period January 1 to May 31, 1982 amounted to $6.2 million.

CAPITAL EXPENDITURES

During 1982, total capital expenditures amounted to $331.1 million of which $284.5 million or 86% was expended in Canada. Of the balance, $39.3 million was spent in the United States and $7.3 million on other foreign operations. The reinvestment rate, representing capital expenditures as a percentage of funds from operations, was 78% compared to 96% in 1981.

Expenditures for land, exploration, exploratory and development drilling and investment in Panarctic totalled $198.0 million or 47% of funds from operations, compared to $171.4 million or 47% in 1981. Expenditures on plant, production and other equipment amounted to $91.1 million or 21% of funds from operations, compared to $85.7 million or 24% of funds from operations in 1981. Completion of the methanol plant resulted in the expenditure of a further $42.0 million in 1982 bringing total project expenditures to $132.2 million. This includes capitalized interest and net pre-production expenses.

The 1982 capital expenditures are before provision for Petroleum Incentive Program grants of approximately $51.6 million associated with eligible exploration and development expenditures. The 1981 grants totalled $37.9 million. These amounts are based on maximum incentive rates under this program.

FINANCIAL POSITION

At December 31, 1982, working capital was $58.1 million compared to $49.4 million at the end of 1981. Funds from operations rose 17% to $423.8 million, or $13.57 per share from $362.7 million, or $11.62 per share in 1981. Deferred production income resulting from take-or-pay provisions of natural gas contracts increased from $40.5 million at the end of 1981 to $92.8 million at December 31, 1982. This increase in deferred production income resulted from an amending agreement concluded with the Company's largest natural gas buyer in 1982. The buyer paid PanCanadian $50.9 million for past and current take-or-pay commitments and in return was granted reduced take-or-pay obligations with respect to future deliveries of natural gas. Deliveries of the prepaid volumes are expected to occur between November, 1984 and October, 1994.

The number of outstanding common shares remained unchanged from prior years at 31 224 979. Shareholders' equity increased to $913.1 million, resulting from $230.7 million in earnings less $112.4 million in dividends. At year-end, long-term debt of $177.9 million represented 10% of total liabilities and shareholders' equity, compared to $247.2 million or 15% in 1981. As at December 31, 1982, approximately 60% of the Company's long-term debt was at fixed interest rates.

AUDITORS' REPORT

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited as at December 31, 1982 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, 1982 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 11, 1983

PRICE WATERHOUSE
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME AND RETAINED INCOME

For the Year Ended December 31, 1982

	1982	1981
	(thousands of dollars)	
Income:		
Operating revenue	$778 866	$621 496
Interest from affiliated company	6 025	13 783
Miscellaneous	7 708	6 643
	792 599	641 922
Expenses:		
Operating	169 522	134 702
Administrative	27 789	20 574
Interest on long-term debt	22 454	32 417
Depreciation	34 817	28 245
Depletion	53 954	44 183
	308 536	260 121
Income before income and revenue taxes	484 063	381 801
Provision for income and revenue taxes:		
Income taxes		
Current	79 591	55 539
Deferred	104 144	86 389
Petroleum and gas revenue tax	63 457	36 136
Incremental oil revenue tax	6 205	—
	253 397	178 064
Net income	230 666	203 737
Retained income at beginning of year	721 753	630 415
	952 419	834 152
Dividends – $3.60 per share	112 401	112 399
Retained income at end of year	$840 018	$721 753
Earnings per share	$7.39	$6.52

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1982

Assets

	1982	1981
	(thousands of dollars)	
Current assets:		
Cash	$ 479	$ 174
Deposits with affiliated company (Note 2)	77 731	53 935
Accounts receivable	137 741	100 346
Income taxes recoverable	—	1 808
Petroleum incentives receivable (Note 3)	30 898	14 513
Inventories, at average cost –		
Products	14 352	16 894
Materials	2 891	6 181
	264 092	193 851
Property, plant and equipment, at cost (Note 4):		
Petroleum, natural gas and mineral properties	1 344 129	1 198 438
Plant, production and other equipment	700 694	569 110
	2 044 823	1 767 548
Less: Accumulated depletion and depreciation	(511 353)	(424 423)
	1 533 470	1 343 125
Investment in Panarctic Oils Ltd., at cost	23 604	22 902
Long-term notes receivable (Note 5)	32 927	32 927
Other assets	17 020	11 242
	$1 871 113	$1 604 047

Liabilities and Shareholders' Equity

	1982	1981
	(thousands of dollars)	
Current liabilities:		
Accounts payable and accrued liabilities	$ 129 508	$ 125 535
Income and revenue taxes payable	27 173	—
Current portion of long-term debt	49 335	18 965
	206 016	144 500
Long-term debt (Note 6)	177 875	247 210
Deferred credits:		
Deferred income	93 319	40 843
Deferred income taxes	480 832	376 688
	574 151	417 531
Shareholders' equity:		
Capital stock –		
Issued –		
31 224 979 common shares	31 225	31 225
Paid in surplus	41 828	41 828
Retained income	840 018	721 753
	913 071	794 806
	$1 871 113	$1 604 047

APPROVED BY THE BOARD:

Robert W. Campbell Director

Bartlett B. Rombough Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1982

	1982	1981
	(thousands of dollars)	
Source of working capital:		
Funds from operations	$423 821	$362 728
Issue of debentures	—	65 000
Term bank loan	—	90 500
Deferred income	52 350	7 458
Other	148	3 354
	476 319	529 040
Application of working capital:		
Petroleum, natural gas and mineral properties	196 700	169 207
Petroleum incentives (Note 3)	(51 009)	(36 382)
Plant, production and other equipment	133 106	175 860
	278 797	308 685
Investment in Panarctic Oils Ltd.	1 289	2 208
Petroleum incentives (Note 3)	(587)	(1 552)
Reduction of long-term debt	69 335	84 715
Dividends	112 401	112 399
Other	6 359	385
	467 594	506 840
Increase in working capital	8 725	22 200
Working capital at beginning of year	49 351	27 151
Working capital at end of year	$ 58 076	$ 49 351

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1982

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.

e) Deferred Income

Pursuant to take-or-pay provisions included in certain natural gas purchase contracts, payments were received during the year 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 ending October 31, 1994.

f) Capitalization of Interest

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

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. PETROLEUM INCENTIVES:

During 1982 the Federal and Alberta Governments enacted legislation providing for a system of incentives, to be effective January 1, 1981, with respect to qualifying exploration and development expenditures. Provision for the receipt of these incentives has been included in the financial statements.

4. PROPERTY, PLANT AND EQUIPMENT:

Details of the Company's investment in property, plant and equipment at December 31 are set forth hereunder:

	1982		1981	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
	(thousands of dollars)			
Petroleum, natural gas and mineral properties	$1 344 129	$348 833	$1 198 438	$295 070
Plant, production and other equipment				
Petroleum and natural gas	365 295	129 844	280 921	104 737
Syncrude	154 525	20 651	151 840	14 528
Methanol	132 233	—	90 232	—
Empress	48 641	12 025	46 117	10 088
	$2 044 823	$511 353	$1 767 548	$424 423

The methanol plant did not commence commercial production before December 31, 1982 and all expenditures incurred in 1982, net of preproduction revenues earned, were capitalized.

5. 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.

6. LONG-TERM DEBT:

Details of long-term debt outstanding at December 31, 1982 and 1981 are set forth hereunder:

	1982	1981
	(thousands of dollars)	
Bank loans due 1983 – 1991	$ 84 210	$121 925
8⅛% secured debentures due March 1, 1992, sinking fund payments 1984 – 1991, secured by a first mortgage upon certain producing properties	20 500	21 250
8¾% secured debentures due November 1, 1992, sinking fund payments 1983 – 1991, secured by a first mortgage upon certain producing properties	22 500	23 000
9¾% unsecured debentures due November 15, 1983	35 000	35 000
16½% unsecured debentures due December 15, 1988	65 000	65 000
	227 210	266 175
Less: Current portion	49 335	18 965
	$177 875	$247 210

The bank loans bear interest at rates which fluctuate with the lender's prime commercial rate.

The Company has agreed that the assets of the Company and its subsidiaries will not be encumbered nor will it dispose of any assets other than in the ordinary course of business without the consent of the bankers.

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)
1983	—	$49 335
1984	—	1 375
1985	—	1 375
1986	—	1 375
1987	—	1 375

7. SEGMENTED INFORMATION:

The Company's only business segment is the exploration for and the development and production of petroleum, natural gas and related products. The major geographic segments at December 31 are as follows:

	1982			1981		
	Canada	United States & Other	Total	Canada	United States & Other	Total
			(thousands of dollars)			
Income	$ 773 347	$ 19 252	$ 792 599	$ 624 258	$ 17 664	$ 641 922
Segment operating income	$ 546 486	$ 13 985	$ 560 471	$ 444 084	$ 14 317	$ 458 401
Interest expense			(22 454)			(32 417)
Depletion			(53 954)			(44 183)
Income and revenue taxes			(253 397)			(178 064)
Net income			$ 230 666			$ 203 737
Identifiable assets	$1 636 761	$234 352	$1 871 113	$1 413 855	$190 192	$1 604 047

SUPPLEMENTARY INFORMATION

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS (Unaudited)

The Financial Accounting Standards Board in the United States released its 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 of 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's discounted future net cash flows is set forth as follows:

1982	Canada	United States	Total
	(thousands of dollars)		
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

1981			
Future cash inflows	$15 917 872	$69 256	$15 987 128
Future production and development costs	3 409 419	15 236	3 424 655
Future income tax expenses	4 691 877	—	4 691 877
Future revenue tax expenses	1 905 271	—	1 905 271
Future net cash flows	5 911 305	54 020	5 965 325
10% annual discount for estimated timing of cash flows	3 532 238	21 713	3 553 951
Standardized measure of discounted future net cash flows	$ 2 379 067	$32 307	$ 2 411 374

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

	1982	1981
	(thousands of dollars)	
Standardized measure of discounted future net cash flows at beginning of year	$2 411 374	$1 434 060
Add:		
Net changes in prices and production costs	—	2 645 498
Additions to proved reserves net of capital and production costs	126 521	147 429
Expenditures that reduced estimated future development costs	83 210	83 541
Accretion of discount	520 567	262 751
Revisions of previous estimates	646 197	—
Net changes in income and revenue taxes	799 418	—
	2 175 913	3 139 219
Less:		
Net changes in prices and production costs	2 058 285	—
Revisions of previous estimates	—	134 793
Sales of oil and gas produced, net of production costs and mineral taxes	541 372	426 258
Net changes in income and revenue taxes	—	1 600 854
	2 599 657	2 161 905
Standardized measure of discounted future net cash flows at end of year	$1 987 630	$2 411 374

Future net cash flows were computed using year-end costs and year-end statutory tax rates (adjusted for permanent differences) that relate to existing proved oil and gas reserves. Prices utilized in estimating future cash flows from Canadian reserves were escalated in accordance with the terms of the federal-provincial energy pricing and taxation agreements which provide that the Canadian price of old oil will not exceed 75% of world price. As a result of current world economic conditions, no oil price increase beyond that scheduled for July 1, 1983 has been anticipated, and natural gas prices utilized in calculating 1982 results do not reflect any price escalation.

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, 1980	99 229	1 005	100 234	2 278	24	2 302
Revisions of previous estimates	9 661	(310)	9 351	128	(5)	123
Extensions and discoveries	7 122	217	7 339	149	1	150
1981 production	(12 221)	(234)	(12 455)	(99)	(3)	(102)
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

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)

		1982	1981
Earnings	Gross Income	$ 792 599	$ 641 922
	Funds from Operations	423 821	362 728
	Per Share	13.57	11.62
	Net Income	230 666	203 737
	Per Share	7.39	6.52
Balance Sheet	Working Capital (Deficiency)	58 076	49 351
	Property, Plant & Equipment — Net	1 533 470	1 343 125
	Investments & Other Assets	73 551	67 071
	Long-Term Debt	177 875	247 210
	Deferred Income Taxes	480 832	376 688
Capital Expenditures	Exploration	169 510	143 049
	Development	27 190	26 158
	Production Facilities & Equipment	88 232	83 088
	Syncrude Project	2 873	2 540
	Methanol Plant	42 001	90 232
	Investment in Panarctic Oils Ltd.	1 289	2 208
	Petroleum Incentive Program Grants	(51 596)	(37 934)
Proven & Probable Reserves (after royalty except Synthetic Oil)	Natural Gas (billion cubic feet)	3 691	3 509
	Conventional Crude Oil & Natural Gas Liquids (thousand barrels)	134 254	140 232
	Synthetic Crude Oil (thousand barrels before royalty)	41 553	43 442
	Sulphur (thousand long tons)	2 390	2 841
	Coal (million short tons)	2 015	1 989
Production (after royalty)	Natural Gas Sales (thousand cubic feet a day)	315 849	279 844
	Conventional Crude Oil & Natural Gas Liquids Production (barrels a day)	34 143	34 123
	Synthetic Crude Oil (barrels a day)	2 827	2 776
	Empress Plants Natural Gas Liquids Sales (barrels a day)	19 851	18 017
	Sulphur Sales (long tons a day)	431	430
Acreage	Gross (thousand acres)	15 348	25 224
	Net (thousand acres)	9 004	11 851
Shares & Dividends	Number of Shares Outstanding	31 224 979	31 224 979
	Number of Shareholders	3 848	4 266
	Dividends	112 401	112 399
	Per Share	3.60	3.60
	Market Price Per Share — High	92¾	97½
	— Low	51½	65

Valuation Day (December 22, 1971) Share Price $15¼

1980	1979	1978 (Restated)	1977	1976	1975	1974	1973
$ 574 687	$ 423 905	$ 333 762	$ 301 346	$ 206 941	$ 159 590	$ 130 572	$ 75 374
367 312	268 107	233 797	186 096	134 440	99 756	74 557	49 872
11.76	8.59	7.49	5.96	4.31	3.20	2.39	1.60
241 367	165 830	155 883	126 546	85 033	68 663	46 243	21 300
7.73	5.31	4.99	4.05	2.72	2.20	1.48	0.68
27 151	38 050	72 393	57 816	25 327	(9 625)	11 748	10 900
1 109 904	906 246	804 114	504 765	428 327	342 957	278 626	249 356
66 606	67 495	33 619	31 955	29 328	25 996	23 696	22 242
176 425	204 390	271 855	119 632	130 447	81 429	89 946	93 468
290 299	228 921	181 144	144 174	118 723	101 302	89 317	81 367
184 514	153 892	131 878	74 645	57 032	30 980	30 285	22 934
34 805	13 245	16 200	18 941	14 923	13 622	9 675	4 385
46 200	33 595	28 657	16 444	45 081	38 510	9 356	4 695
4 287	13 095	163 046	—	—	—	—	—
—	—	—	—	—	—	—	—
154	1 364	1 536	3 014	2 876	3 155	1 764	1 705
—	—	—	—	—	—	—	—
3 499	3 174	2 683	2 448	2 366	2 384	2 298	2 225
138 381	144 746	146 336	152 963	165 851	185 945	194 493	206 755
43 827	44 879	57 000	—	—	—	—	—
2 949	2 918	2 990	3 436	3 773	4 756	4 076	3 573
1 979	1 842	1 748	1 490	860	485	—	—
281 351	289 855	275 861	273 036	231 691	223 623	226 285	210 210
35 632	36 484	32 700	33 834	30 395	33 546	39 273	43 521
2 875	1 238	—	—	—	—	—	—
15 175	16 465	14 281	12 163	9 980	9 363	11 979	7 065
436	283	246	230	143	139	218	219
25 261	23 112	23 149	28 905	30 256	31 793	39 686	45 671
11 935	11 596	11 566	13 362	13 059	15 311	16 426	19 705
31 224 979	31 224 979	31 219 534	31 219 534	31 219 534	31 219 534	31 219 534	31 214 990
4 581	4 767	5 119	5 363	5 905	7 170	7 492	7 840
99 909	54 632	35 583	29 653	27 784	26 847	19 355	12 795
3.20	1.75	1.14	0.95	0.89	0.86	0.62	0.41
98	67½	38¾	36	25¾	17¼	14	18½
60¼	38¼	30¾	23¾	15⅞	7⅝	7⅛	11⅜

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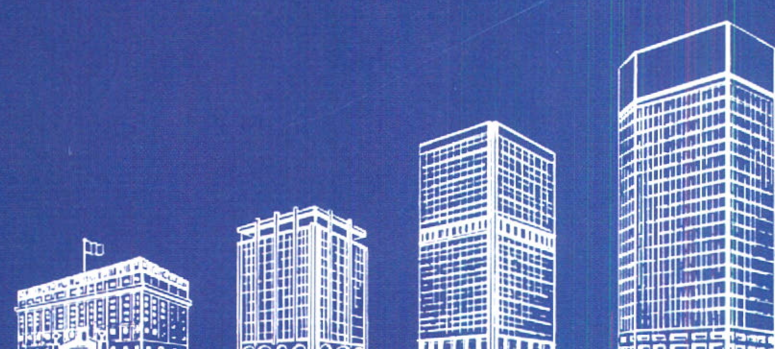

company headquarters over the years

1958 1966 1971 1982