



NOTICES OF MEETINGS

NOTICE OF PETITION

JOINT INFORMATION CIRCULAR

**CONCERNING THE MERGER OF
ALBERTA ENERGY COMPANY LTD.**

and

PANCANADIAN ENERGY CORPORATION

February 22, 2002

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February 22, 2002

Dear AEC Shareholders, AEC Optionholders and PanCanadian Shareholders:

We are pleased to provide you with notice of a special meeting of the shareholders and optionholders of Alberta Energy Company Ltd. and notice of an annual and special meeting of the shareholders of PanCanadian Energy Corporation. At the meetings you will be asked to approve the proposed merger of AEC and PanCanadian. The formal Notices of Meetings and Joint Information Circular of AEC and PanCanadian accompany this letter and contain a detailed description of the proposed merger as well as the actions to be taken at the meetings. The merger is subject to approvals by the shareholders and optionholders of AEC, the shareholders of PanCanadian, the Court of Queen's Bench of Alberta and regulatory authorities. The merger is anticipated to be completed in early April, 2002.

Both the AEC and PanCanadian boards of directors have received written fairness opinions from their financial advisors and have unanimously approved the merger. The boards of directors of AEC and PanCanadian recommend to their respective shareholders (and, in the case of AEC, its optionholders) that they vote in favour of the resolutions to be considered at the respective meetings.

The organization resulting from the merger would be a world-class independent oil and gas company, headquartered in Canada, with an anticipated enterprise value of more than \$27 billion. This merger of equals is to be accomplished through the acquisition by PanCanadian of all of the shares of AEC in exchange for PanCanadian shares, pursuant to an arrangement under the *Business Corporations Act* (Alberta). PanCanadian's name will then be changed to EnCana Corporation.

AEC shareholders will receive 1.472 shares of PanCanadian for each share of AEC that they own. PanCanadian shareholders will continue to hold their shares which, after the name change, become shares of EnCana. On completion of the merger, PanCanadian shareholders will own approximately 54% and AEC shareholders will own approximately 46% of EnCana Corporation.

AEC shareholders will generally be able to exchange their AEC shares for PanCanadian shares without incurring tax. **In order for Canadian resident AEC shareholders who own more than 2,500 AEC shares to defer realizing any taxable gain as a result of the exchange of their shares under the merger, it will be necessary to provide a declaration as to their status by 4:00 p.m. (Calgary time) on April 4, 2002.** The Joint Information Circular contains additional information regarding this procedure. AEC has retained PricewaterhouseCoopers LLP to help AEC shareholders who require assistance in completing the declaration.

We urge you to give this material your careful consideration and suggest that you consult your financial, tax or other professional advisors. **Please ensure that your securities are represented at your meeting whether or not you are able to attend. Regardless of the number of securities you hold, your vote is important.** If you have any questions, you may contact Georgeson Shareholder Communications as indicated on the back cover of the Joint Information Circular.

We believe that the merger of two of our industry's largest and strongest companies into EnCana Corporation will provide shareholders with investment performance potential which is superior to that which could have been achieved by either company on its own. We request your support in making EnCana a reality.

Yours truly,

A handwritten signature in black ink, appearing to read "Gwyn Morgan".

Gwyn Morgan
President and Chief Executive Officer
ALBERTA ENERGY COMPANY LTD.

A handwritten signature in black ink, appearing to read "David P. O'Brien".

David P. O'Brien
Chairman and Chief Executive Officer
PANCANADIAN ENERGY CORPORATION



February 22, 2002

Dear AEC Shareholders and AEC Optionholders:

As described in the accompanying Joint Information Circular of Alberta Energy Company Ltd. and PanCanadian Energy Corporation, your board of directors has carefully considered the proposed merger of AEC and PanCanadian and has unanimously concluded that the proposed merger is fair to AEC shareholders and AEC optionholders and is in the best interests of your company. Each member of the board of directors has determined to vote his or her AEC common shares and AEC options in favour of the resolution to be considered at the AEC special meeting.

The board of directors believes that the complementary assets and strategic positions of AEC and PanCanadian, in combination with their management, personnel, technical expertise and financial strength, will create a strengthened investment performance outlook and an organization better positioned to succeed and grow in the highly competitive global energy marketplace.

The board of directors unanimously recommends that AEC shareholders and AEC optionholders vote in favour of the resolution to be considered at the special meeting to be held on April 4, 2002.

The Board of Directors of
Alberta Energy Company Ltd.

Michael N. Chernoff
Ian W. Delaney
Richard F. Haskayne, O.C.
John C. Lamacraft
Dale A. Lucas

Hon. Donald S. Macdonald, P.C., C.C.
Stanley A. Milner, A.O.E., LL.D.
Gwyn Morgan
Valerie A.A. Nielsen
T. Don Stacy

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read "S. A. Milner", followed by a long horizontal flourish.

Stanley A. Milner, A.O.E., LL.D.
Chairman



February 22, 2002

Dear PanCanadian Shareholders:

As described in the accompanying Joint Information Circular of Alberta Energy Company Ltd. and PanCanadian Energy Corporation, your board of directors has carefully considered the proposed merger of AEC and PanCanadian and unanimously supports the proposed merger. The board of directors believes that the complementary assets and strategic positions of AEC and PanCanadian, along with the companies' personnel, technical expertise and financial strength, will create an organization with a stronger investment performance outlook and one that is better positioned to succeed and grow in the highly competitive global energy marketplace.

Based on its analysis, including the receipt of fairness opinions from RBC Capital Markets and Credit Suisse First Boston, the board has concluded that the Exchange Ratio by which AEC Shareholders will exchange their common shares for PanCanadian Shares is fair to PanCanadian Shareholders and to PanCanadian and is in the best interests of PanCanadian. Each member of the board of directors has determined to vote his or her PanCanadian Shares in favour of the resolutions to be considered at the PanCanadian annual and special meeting.

The board of directors unanimously recommends that PanCanadian Shareholders vote in favour of the resolutions to be considered at the annual and special meeting to be held on April 4, 2002.

The Board of Directors of
PanCanadian Energy Corporation

Dian Cohen
Patrick D. Daniel
William R. Fatt
Michael A. Grandin
Barry W. Harrison

Ken F. McCready
David P. O'Brien
Dennis A. Sharp
James M. Stanford
William W. Stinson

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'David P. O'Brien'.

David P. O'Brien
Chairman



ALBERTA ENERGY COMPANY LTD.

NOTICE OF SPECIAL MEETING

NOTICE IS HEREBY GIVEN that a special meeting (the "AEC Meeting") of the holders of common shares (the "AEC Shares") and options to acquire common shares (the "AEC Options") of Alberta Energy Company Ltd. ("AEC") will be held at the TELUS Convention Centre, Exhibition Hall C, North Building, 136 - 8th Avenue S.E., Calgary, Alberta on April 4, 2002 at 9:30 a.m. (Calgary time) for the following purposes, which are described in more detail in the Joint Information Circular (the "Joint Circular") of AEC and PanCanadian Energy Corporation ("PanCanadian") accompanying this Notice, namely:

1. to consider, pursuant to an order of the Court of Queen's Bench of Alberta dated February 22, 2002 and, if deemed advisable, to pass a special resolution approving a proposed arrangement under Section 193 of the *Business Corporations Act* (Alberta); and
2. to transact such other business as may properly come before the AEC Meeting or any adjournment thereof.

The full text of the special resolution is set out in Appendix A to the Joint Circular.

Only holders of AEC Shares or AEC Options of record at the close of business on February 27, 2002 will be entitled to notice of and to vote at the AEC Meeting or any adjournment thereof, except that a transferee of AEC Shares after such record date may, not later than 10 days before the AEC Meeting, establish the right to vote by providing evidence of ownership of AEC Shares and requesting that the transferee's name be placed on the voting list in place of the transferor.

By Order of the Board of Directors

Calgary, Alberta
February 22, 2002

Brian C. Ferguson
Vice-President, Corporate Communications
and Corporate Secretary

If you are unable to attend the AEC Meeting in person, please complete and sign the enclosed form of proxy (GREEN for AEC Shareholders and YELLOW for AEC Optionholders) and forward it in the enclosed postage prepaid self-addressed envelope, or otherwise deliver it, to CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1, Attention: Proxy Department, to reach the addressee no later than 5:00 p.m. (Calgary time) on April 2, 2002 or, if the AEC Meeting is adjourned, by 5:00 p.m. (Calgary time) on the second business day prior to the date on which the AEC Meeting is reconvened.



PANCANADIAN ENERGY CORPORATION
NOTICE OF ANNUAL AND SPECIAL MEETING

NOTICE IS HEREBY GIVEN that an annual and special meeting (the "PanCanadian Meeting") of the holders of common shares (the "PanCanadian Shares") of PanCanadian Energy Corporation ("PanCanadian") will be held at the TELUS Convention Centre, Exhibition Hall C, North Building, 136 - 8th Avenue S.E., Calgary, Alberta on April 4, 2002 at 12:30 p.m. (Calgary time) for the following purposes, which are described in more detail in the Management Information Circular of PanCanadian (the "PanCanadian Circular") and in the Joint Information Circular (the "Joint Circular") of PanCanadian and Alberta Energy Company Ltd. ("AEC") accompanying this Notice, namely:

1. to receive the consolidated financial statements of PanCanadian together with the Report of the Auditors for the year ended December 31, 2001;
2. to appoint auditors for the ensuing year;
3. to elect eight directors to hold office until the next annual meeting of shareholders or until their successors are elected or appointed;
4. to do the following in connection with the proposed arrangement involving AEC (the "Arrangement"):
 - (a) to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving the combination agreement entered into between PanCanadian and AEC and the issuance of PanCanadian Shares in connection with the Arrangement;
 - (b) to elect eight additional directors to hold office from and after the Arrangement becoming effective until the next annual meeting of shareholders or until their successors are elected or appointed;
 - (c) to consider and, if deemed advisable, to pass, with or without variation, a special resolution authorizing the amendment of the articles of PanCanadian to change its name to "EnCana Corporation", conditional upon the Arrangement becoming effective;
 - (d) to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving an increase in the number of shares reserved for issuance under the PanCanadian Employee Option Plan, conditional upon the Arrangement becoming effective; and
 - (e) to consider and, if deemed advisable, to pass, with or without variation, an ordinary resolution approving a change in the prescribed number of options for initial and annual grants under the PanCanadian Directors' Option Plan, conditional upon the Arrangement becoming effective; and
5. to transact such other business as may properly come before the PanCanadian Meeting or any adjournment thereof.

The full text of each of the resolutions for the matters referred to in item 4 is set out in Appendix A to the PanCanadian Circular and Appendix B to the Joint Circular.

Only holders of PanCanadian Shares of record at the close of business on February 27, 2002 will be entitled to notice of and to vote at the PanCanadian Meeting or any adjournment thereof, except that a transferee of PanCanadian Shares after such record date may, not later than 10 days before the PanCanadian Meeting, establish the right to vote by providing evidence of ownership of PanCanadian Shares and requesting that the transferee's name be placed on the voting list in place of the transferor.

By Order of the Board of Directors

Laurie J. Schuller
General Counsel and Corporate Secretary

Calgary, Alberta
February 22, 2002

If you are unable to attend the PanCanadian Meeting in person, please complete and sign the enclosed form of proxy (BLUE) and forward it in the enclosed postage prepaid self-addressed envelope, or otherwise deliver it, to CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1, Attention: Proxy Department, to reach the addressee no later than 5:00 p.m. (Calgary time) on April 2, 2002 or, if the PanCanadian Meeting is adjourned, by 5:00 p.m. (Calgary time) on the second business day prior to the date on which the PanCanadian Meeting is reconvened.

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY

IN THE MATTER OF Section 193 of the *Business Corporations Act*, being Chapter B-9 of the Revised Statutes of Alberta, 2000.

IN THE MATTER OF a proposed Arrangement in respect of Alberta Energy Company Ltd. and its Shareholders and Optionholders.

NOTICE OF PETITION

NOTICE IS HEREBY GIVEN that a Petition (the "Petition") has been filed by Alberta Energy Company Ltd. ("AEC") for approval of an arrangement (the "Arrangement") pursuant to Section 193 of the *Business Corporations Act*, being Chapter B-9 of the Revised Statutes of Alberta, 2000 (the "ABCA"), which Arrangement is described in greater detail in the Joint Information Circular of AEC and PanCanadian Energy Corporation ("PanCanadian") accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice S. J. LoVecchio, or such other Justice as may preside, at the Court House, 611 - 4th Street S.W., Calgary, Alberta on Friday the 5th day of April, 2002 at 9:00 a.m. (Calgary time), or as soon thereafter as counsel may be heard. At the hearing of the Petition, AEC intends to seek the following:

- (a) an order approving the Arrangement pursuant to the provisions of Section 193 of the ABCA; and
- (b) such other and further orders, declarations and directions as the Court may deem just.

Any shareholder or optionholder of AEC or any other interested party desiring to support or oppose the Petition may appear at the time of the hearing in person or by counsel for that purpose; provided that any shareholder or optionholder of AEC or any other interested party desiring to appear or be heard or present evidence at the hearing is required to file with the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court") and serve on AEC, on or before 12:00 noon (Calgary time) on April 1, 2002, a Notice of Appearance, including his or her address for service, and indicating whether such holder or person intends to support or oppose the application or make submissions thereat, together with any evidence or materials which are to be presented to the Court. Service on AEC is to be effected by delivery to counsel to AEC at the address below.

AND NOTICE IS FURTHER GIVEN that at the hearing, subject to the foregoing, shareholders and optionholders of AEC and other interested parties will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement. If you do not attend, either in person or by counsel, at that time, the Court may approve the Arrangement as presented, approve the Arrangement subject to such terms and conditions as the Court shall deem fit, or refuse to approve the Arrangement without any further notice to you.

AND NOTICE IS FURTHER GIVEN that the Court, by an Interim Order dated February 22, 2002, has given directions as to the calling and holding of a special meeting of the holders of common shares and options to acquire common shares of AEC for the purpose of those holders voting on a special resolution to approve the Arrangement.

AND NOTICE IS FURTHER GIVEN that if issued, the Order of the Court approving the Arrangement will serve as the basis for an exemption from the registration requirements of the *Securities Act of 1933*, as amended, of the United States of America, with respect to the securities to be issued pursuant to the Arrangement.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any shareholder or optionholder of AEC or other interested party requesting the same, from the undermentioned counsel for AEC.

AND NOTICE IS FURTHER GIVEN that the counsel for AEC is as follows:

Macleod Dixon LLP
Barristers and Solicitors
3700, 400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

Attention: John J. Marshall, Q.C.

DATED at Calgary, Alberta, this 22nd day of February, 2002.

By Order of the Board of Directors of
Alberta Energy Company Ltd.

A handwritten signature in black ink, appearing to read "Brian C. Ferguson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Brian C. Ferguson
Vice-President, Corporate Communications
and Corporate Secretary



JOINT INFORMATION CIRCULAR

**CONCERNING THE MERGER OF
ALBERTA ENERGY COMPANY LTD.**

and

PANCANADIAN ENERGY CORPORATION

February 22, 2002

Unless defined elsewhere in this Joint Circular (including the Appendices), terms used in this Joint Circular are defined in the “Glossary of Terms”

INFORMATION FOR UNITED STATES SECURITYHOLDERS

This Joint Circular has been prepared in accordance with disclosure requirements in Canada. AEC Securityholders and PanCanadian Shareholders in the United States should be aware that such requirements are different than those of the United States applicable to registration statements under the U.S. Securities Act and proxy statements under the U.S. Exchange Act. The financial statements and pro forma and historical financial information included herein have been prepared in accordance with Canadian generally accepted accounting principles, which differ from United States generally accepted accounting principles in certain material respects, and thus are not comparable in all respects to financial statements and pro forma and historical financial information of United States companies. Likewise, information concerning oil and gas properties and operations of AEC and PanCanadian has been prepared in accordance with Canadian standards and is not comparable in all respects to similar information for United States companies.

The EnCana Shares to be issued pursuant to the Merger have not been registered under the U.S. Securities Act and are being issued in reliance on the exemption from registration set forth in Section 3(a)(10) thereof. Any offers to resell or resales of such EnCana Shares by persons who, immediately prior to the Merger, were “affiliates” (generally, controlling persons or members of a control group) of AEC or PanCanadian are subject to restrictions under the U.S. Securities Act. The solicitation of proxies for the AEC Meeting and the PanCanadian Meeting is not subject to the requirements of Section 14(a) of the U.S. Exchange Act by virtue of an exemption applicable to proxy solicitation by certain non-United States issuers.

Certain information concerning the Canadian federal tax consequences of the Merger for AEC Securityholders that are not resident in Canada for income tax purposes has been set out in this Joint Circular under the heading “Part I — The Merger — Canadian Federal Income Tax Considerations”. Certain information concerning the United States federal tax consequences of the Merger for AEC Shareholders that are United States taxpayers has been set out in this Joint Circular under the heading “Part I — The Merger — United States Federal Income Tax Considerations”. Such information does not address all aspects of taxation that may be relevant to particular United States AEC Securityholders in light of their personal investment or tax circumstances or to persons that are subject to special tax rules. United States AEC Securityholders are advised to consult their tax advisors to determine the particular consequences, if any, of the Merger to them under the United States tax laws.

Enforcement by AEC Securityholders and PanCanadian Shareholders of civil liabilities under the United States securities laws may be affected adversely by the fact that AEC and PanCanadian are organized under the laws of a jurisdiction outside the United States, that some or all of their officers and directors are residents of countries other than the United States, that some of the experts named in this Joint Circular are residents of countries other than the United States, and that all or a substantial portion of the assets of AEC and PanCanadian and such persons may be located outside the United States.

THE ENCANA SHARES TO BE DISTRIBUTED IN CONNECTION WITH THE MERGER HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES, NOR HAS THE SEC OR THE SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES PASSED ON THE ADEQUACY OR ACCURACY OF THIS JOINT CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

CURRENCY EXCHANGE RATES

For each period, the following table provides the high and low exchange rates for one U.S. dollar expressed in Canadian dollars, the average of these exchange rates for such periods, and the exchange rate at the end of such periods, based upon the noon spot rate of the Bank of Canada:

	January 1, 2002 to February 22, 2002	Twelve Month Period Ended December 31,		
		2001	2000	1999
High	\$1.6132	\$1.6021	\$1.5593	\$1.5298
Low	1.5885	1.4936	1.4341	1.4433
Average	1.5973	1.5484	1.4852	1.4858
Period End	1.5943	1.5926	1.5002	1.4433

On February 22, 2002, the exchange rate for one U.S. dollar expressed in Canadian dollars based on the noon spot rate of the Bank of Canada was \$1.5943.

All dollar amounts set forth in this Joint Circular are in Canadian dollars, except where otherwise indicated.

AEC AND PANCANADIAN MEETINGS

This Joint Circular is being furnished to: (a) AEC Shareholders and AEC Optionholders in connection with the solicitation of proxies by AEC's management for use at the AEC Meeting; and (b) PanCanadian Shareholders in connection with the solicitation of proxies by PanCanadian's management for use at the PanCanadian Meeting.

The purpose of the AEC Meeting is to submit to the AEC Shareholders and AEC Optionholders, for their consideration, the AEC Arrangement Resolution to authorize the Arrangement.

The purpose of the PanCanadian Meeting is to conduct annual meeting business and to submit to PanCanadian Shareholders, for their consideration, the PanCanadian Combination Resolutions to authorize or approve certain matters in connection with the Merger.

All information in this Joint Circular relating to AEC has been supplied by AEC and all information relating to PanCanadian has been supplied by PanCanadian. Unless otherwise specified, the information contained herein is given as at the date hereof.

No person is authorized to give any information or to make any representation not contained in this Joint Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Joint Circular does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation of an offer or proxy solicitation. Neither delivery of this Joint Circular nor any distribution of the securities referred to in this Joint Circular shall, under any circumstances, create an implication that there has been no change in the information set forth therein since the date of this Joint Circular.

GLOSSARY OF TERMS

In this Joint Circular, unless defined elsewhere in this Joint Circular or the context otherwise requires, the following words and terms have the following meanings:

"ABCA" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as may be amended;

"AEC" means Alberta Energy Company Ltd., a corporation existing under the ABCA;

"AEC Arrangement Resolution" means the special resolution approving the Arrangement to be considered at the AEC Meeting, the full text of which is set forth in Appendix A to this Joint Circular;

"AEC Board" means the board of directors of AEC;

"AEC Deemed Eligible Holders" means the holders of AEC Deemed Eligible Shares;

"AEC Deemed Eligible Shares" means AEC Shares which are, at the effective time of the Arrangement on the Effective Date, either registered in the name of a registered holder of not more than 2,500 AEC Shares on the share registers maintained by AEC's transfer agent or beneficially owned by a holder of not more than 2,500 AEC Shares; but in each case excluding AEC Shares registered in the name of or beneficially owned by a holder that is exempt from tax under Part I of the Tax Act in respect of such shares, other than a trust under an employee profit sharing plan, a trust under a retirement compensation arrangement or a qualifying environmental trust, as those terms are defined in the Tax Act;

"AEC Meeting" means the special meeting of AEC Securityholders to be held for the purpose of considering and, if deemed advisable, passing the AEC Arrangement Resolution;

"AEC Option Plan" means the AEC Share Option Plan, as amended and restated effective July 18, 2001;

"AEC Optionholders" means the holders of AEC Options;

"AEC Options" means options to purchase AEC Shares granted by AEC under the AEC Option Plan;

"AEC Securityholders" means, collectively, the AEC Shareholders and the AEC Optionholders;

“**AEC Shareholder Rights Plan**” means the Shareholder Rights Plan Agreement dated as of February 16, 1994, as amended and restated as of February 17, 1999, between AEC and CIBC Mellon Trust Company;

“**AEC Shareholders**” means the holders of AEC Shares;

“**AEC Shares**” means the common shares in the capital of AEC;

“**Acquisition Proposal**” means any merger, amalgamation, consolidation, arrangement, business combination, recapitalization, take-over bid, sale of material assets, material sale of treasury shares or rights or interests therein or thereto (other than a public offering of treasury shares) or similar transactions involving PanCanadian or AEC or any Material Subsidiary (as defined in the Combination Agreement) of PanCanadian or AEC, or a proposal to do so;

“**ArrangeCo**” means 3063550 Nova Scotia Company, an unlimited liability company incorporated under the *Companies Act* of Nova Scotia, and a wholly-owned subsidiary of PanCanadian;

“**Arrangement**” means the arrangement, under the provisions of Section 193 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

“**beneficial owner**” does not include a beneficiary of a trust where the beneficiary is not required to report the transactions of the trust for purposes of the Tax Act, but does include such a trust;

“**business day**” means any day, other than Saturday, Sunday and a statutory holiday in the Province of Alberta;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

“**CIBC World Markets**” means CIBC World Markets Inc.;

“**CPL**” means Canadian Pacific Limited, as it was known until October 1, 2001;

“**CSFB**” means Credit Suisse First Boston Corporation;

“**Combination Agreement**” means the amended and restated combination agreement dated as of January 27, 2002 between PanCanadian and AEC pursuant to which PanCanadian and AEC have agreed to implement the Merger, a copy of which is set forth in Appendix D to this Joint Circular;

“**Competition Act**” means the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Depository**” means CIBC Mellon Trust Company;

“**Effective Date**” means the date upon which the Arrangement becomes effective under the ABCA;

“**Eligible Holder**” means a beneficial owner of AEC Shares (other than AEC Deemed Eligible Shares), whether or not such beneficial owner is also the registered holder of such AEC Shares, who:

- (a) is resident in Canada for purposes of the Tax Act, other than any such owner who is exempt from tax under Part I of the Tax Act (except a tax exempt entity that is a trust under an employee profit sharing plan, a trust under a retirement compensation arrangement or a qualifying environmental trust, as those terms are defined in the Tax Act);
- (b) is not resident in Canada for purposes of the Tax Act and whose AEC Shares constitute taxable Canadian property (as defined in the Tax Act), provided that any gain realized by such non-resident owner on the disposition of AEC Shares would not be exempt from tax under the Tax Act by virtue of an applicable tax treaty or convention; or
- (c) is a partnership that owns AEC Shares if one or more of its members would be an Eligible Holder if such member directly held such AEC Shares;

and who has properly completed an Eligible Holder Declaration, which is received by the Depository at one of its offices listed in the Eligible Holder Declaration by 4:00 p.m. (Calgary time) on the date of the AEC Meeting, confirming such owner’s status as an Eligible Holder;

“Eligible Holder Declaration” means a declaration, in the form accompanying this Joint Circular or another written communication acceptable to PanCanadian, to be used by beneficial owners of AEC Shares (other than AEC Deemed Eligible Shares) to confirm their status as an Eligible Holder;

“EnCana” means PanCanadian from and after the Effective Date and, where the context requires, includes the corporations and partnerships which will be subsidiaries of, or controlled by, EnCana upon completion of the Merger (including AEC);

“EnCana Board” means the board of directors of EnCana;

“EnCana Option Plans” means the PanCanadian Option Plans from and after the Effective Date;

“EnCana Shares” means the PanCanadian Shares from and after the Effective Date, including all PanCanadian Shares issued or issuable as a result of the Arrangement to AEC Shareholders;

“EnCana Substitute Options” means the options to purchase PanCanadian Shares into which the AEC Options outstanding on the Effective Date are converted pursuant to the terms of the Plan of Arrangement;

“Exchange Ratio” means 1.472 PanCanadian Shares for each AEC Share;

“Final Order” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Arrangement becoming effective or, if appealed, then unless such appeal is withdrawn or denied, as affirmed;

“HSR Act” means the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, of the United States;

“Interim Order” means the interim order of the Court, as the same may be amended, containing declarations and directions with respect to the Arrangement and providing for, among other things, the calling and holding of the AEC Meeting, a copy of which is set forth in Appendix C to this Joint Circular;

“Joint Circular” means this Joint Information Circular prepared by AEC and PanCanadian and sent to the AEC Securityholders in connection with the AEC Meeting and to the PanCanadian Shareholders in connection with the PanCanadian Meeting;

“Letter of Transmittal” means the letter of transmittal sent by AEC to the AEC Shareholders with this Joint Circular to be used by AEC Shareholders to surrender the certificates representing their AEC Shares in order to receive certificates for the EnCana Shares issued to them pursuant to the Merger;

“Merger” means the business combination of AEC and PanCanadian to be effected pursuant to the Combination Agreement, including the Arrangement;

“Merrill Lynch” means Merrill Lynch, Pierce, Fenner & Smith Incorporated;

“NYSE” means the New York Stock Exchange, Inc.;

“PanCanadian” means PanCanadian Energy Corporation, a corporation existing under the CBCA;

“PanCanadian Board” means the board of directors of PanCanadian;

“PanCanadian Circular” means the separate management information circular of PanCanadian dated February 22, 2002 relating to the annual meeting and other business to be conducted at the PanCanadian Meeting;

“PanCanadian Combination Resolutions” means the resolutions set forth in Appendix B to this Joint Circular;

“PanCanadian Directors’ Option Plan” means the Directors’ Stock Option Plan of PanCanadian effective as of October 1, 2001;

“PanCanadian Employee Option Plan” means the Key Employee Stock Option Plan of PanCanadian effective as of October 1, 2001;

“PanCanadian Meeting” means the annual and special meeting of PanCanadian Shareholders to be held for the purpose, among other things, of considering and, if deemed advisable, passing the PanCanadian Combination Resolutions;

“**PanCanadian Options**” means options to purchase PanCanadian Shares subject to the PanCanadian Option Plans;

“**PanCanadian Option Plans**” means, collectively, the PanCanadian Employee Option Plan and the PanCanadian Directors’ Option Plan;

“**PanCanadian Shareholder Rights Plan**” means the Amended and Restated Shareholder Rights Plan Agreement dated as of September 13, 2001 between PanCanadian and CIBC Mellon Trust Company;

“**PanCanadian Shareholders**” means the holders of PanCanadian Shares;

“**PanCanadian Shares**” means the common shares in the capital of PanCanadian;

“**PanCanadian SRP Rights**” means the rights under the PanCanadian Shareholder Rights Plan;

“**Plan of Arrangement**” and “**Plan**” mean the plan of arrangement set out as Schedule A to the Combination Agreement, a copy of which is set forth in Appendix D to this Joint Circular, and any amendment or variation thereto made in accordance with the Combination Agreement;

“**RBC**” means RBC Dominion Securities Inc., a member company of RBC Capital Markets;

“**Required PanCanadian Combination Resolutions**” means Resolutions 1 and 2 set forth in Appendix B to this Joint Circular;

“**SEC**” means the United States Securities and Exchange Commission;

“**TSE**” means The Toronto Stock Exchange;

“**Tax Act**” means the *Income Tax Act*, R.S.C. 1985, c.1 (5th supp.), as amended;

“**U.S. Exchange Act**” means the United States *Securities Exchange Act of 1934*, as amended;

“**U.S. Securities Act**” means the United States *Securities Act of 1933*, as amended; and

“**United States**” and “**U.S.**” mean the United States of America, its territories and possessions, any state of the United States, and the District of Columbia.

RISK FACTORS

The following important factors relating to the effects of the Merger, in addition to those factors relating to the oil and gas industry and AEC’s and PanCanadian’s operations discussed elsewhere in this Joint Circular (see Appendix I) could affect the future results of EnCana and cause those results or other outcomes to differ materially from those expressed in any forward-looking information. In particular:

- EnCana may fail to realize the anticipated benefits of the Merger;
- estimates of cost savings and cost saving components are inherently uncertain, and there can be no assurance as to the accuracy of these estimates; and
- the trading price of the EnCana Shares may be less than the trading price of the AEC Shares (after application of the Exchange Ratio) or the trading price of the PanCanadian Shares as of the date of the Combination Agreement or as of the dates of the AEC Meeting and the PanCanadian Meeting.

FORWARD-LOOKING INFORMATION ADVISORY

This Joint Circular contains certain forward-looking statements within the meaning of the United States *Private Securities Litigation Reform Act of 1995*. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this Joint Circular include, but are not limited to, statements with respect to: the timing and success of obtaining necessary consents and approvals for the Merger, the timing and successful completion of the Merger, the strategic benefits of the Merger, EnCana’s growth prospects and growth profile, the complementary nature of AEC’s and PanCanadian’s assets, the abilities of EnCana’s management team, EnCana’s exploration potential, the enterprise value of EnCana, EnCana’s industry rank with respect to enterprise value, reserves and production, EnCana’s ability to make acquisitions, EnCana’s expected return from its capital investments, the annual pretax cost savings resulting from the Merger, the timing thereof, synergies in AEC’s and PanCanadian’s capital programs and future liquidity and investor interest in EnCana Shares, the impact of the Merger on AEC’s and PanCanadian’s earnings per share and cash flow per share, the tax-deferred basis of the Merger, the payment and amount of dividend payments by EnCana, anticipated financial performance, business prospects and strategies of AEC, PanCanadian and EnCana, oil and gas prices, estimates of future production, the estimated amounts and timing of capital expenditures, anticipated future debt levels and royalty rates, or other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance.

Shareholders are cautioned not to place undue reliance on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which such forward-looking information is based will prove to be correct. By its nature, forward-looking information of AEC, PanCanadian and EnCana involves numerous assumptions, risks and uncertainties, both general and specific and including those discussed elsewhere in this Joint Circular, including under the heading “Part I — The Merger — Risk Factors” and in Appendix I, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although AEC and PanCanadian believe that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this Joint Circular include, but are not limited to: delays in obtaining Court or other approvals for the Arrangement; difficulties in integrating the business and operations of AEC and PanCanadian; the availability and price of energy commodities; the effects of competition and pricing pressures; risks and uncertainties involving the geology and geophysics of oil and gas exploration and production; operational risks in exploring for, developing and producing crude oil and natural gas; the uncertainty of estimates and projections relating to production, costs and expenses; shifts in market demands; industry overcapacity; the strength of the Canadian economy in general; currency and interest rate fluctuations; general global and economic and business conditions including the extent and duration of the slowdown in the Canadian economy and U.S. economy and possibly the economies of other countries in which AEC or PanCanadian conduct, or EnCana will conduct, significant operations; stock market volatility; changes in business strategies; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; various events which could disrupt operations, including severe weather conditions, technological changes, and AEC’s, PanCanadian’s and EnCana’s anticipation of and success in managing the risks implicated by the foregoing; potential increases in maintenance expenditures; changes in laws and regulations, including trade, fiscal, environmental and regulatory laws; and health, safety and environmental risks may affect projected reserves and resources and anticipated earnings or assets. Statements relating to “reserves” or “resources” are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

AEC and PanCanadian caution that the foregoing list of important factors is not exhaustive. The forward-looking statements contained in this Joint Circular are expressly qualified by this statement. AEC, PanCanadian and EnCana do not undertake any obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting this information.

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers are qualified by and must be read in conjunction with the information contained in this Joint Circular.

Q. When and where is the AEC Meeting?

A: The AEC Meeting will take place at 9:30 a.m. (Calgary time) on April 4, 2002 at the TELUS Convention Centre, Exhibition Hall C, North Building, 136 - 8th Avenue S.E., Calgary, Alberta.

Q. When and where is the PanCanadian Meeting?

A: The PanCanadian Meeting will take place at 12:30 p.m. (Calgary time) on April 4, 2002 at the TELUS Convention Centre, Exhibition Hall C, North Building, 136 - 8th Avenue S.E., Calgary, Alberta.

Q. What do AEC Securityholders and PanCanadian Shareholders need to do to vote?

A: *AEC Securityholders*

If you are a registered holder of AEC Shares or an AEC Optionholder, you may indicate on the appropriate form of proxy how you want to vote, and sign and mail it in the enclosed return envelope as soon as possible, so that your AEC Shares or AEC Options may be represented at the AEC Meeting. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote in favour of the resolution to be voted upon. Your proxy must be received at the office of CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1 by 5:00 p.m. (Calgary time) on April 2, 2002. Provided you are a registered AEC Shareholder or an AEC Optionholder, you may also choose to attend the AEC Meeting and vote your AEC Shares or AEC Options in person.

If your AEC Shares are held by your broker, your broker will vote your AEC Shares only if you provide instructions on how to vote. Without instructions, your AEC Shares will not be voted. You should instruct your broker how you want your AEC Shares to be voted, following the procedures provided by your broker.

A: *PanCanadian Shareholders*

If you are a registered holder of PanCanadian Shares, you may indicate on the form of proxy how you want to vote, and sign and mail it in the enclosed return envelope as soon as possible, so that your PanCanadian Shares may be represented at the PanCanadian Meeting. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote in favour of each of the resolutions to be voted upon. Your proxy must be received at the office of CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1 by 5:00 p.m. (Calgary time) on April 2, 2002. Provided you are a registered PanCanadian Shareholder, you may also choose to attend the PanCanadian Meeting and vote your PanCanadian Shares in person.

If your PanCanadian Shares are held by your broker, your broker will vote your PanCanadian Shares only if you provide instructions on how to vote. Without instructions, your PanCanadian Shares will not be voted. You should instruct your broker how you want your PanCanadian Shares to be voted, following the procedures provided by your broker.

Q. What do I do if I want to change my vote?

A: Provided you are a registered AEC Shareholder or PanCanadian Shareholder or an AEC Optionholder, you may send in a later-dated form of proxy to CIBC Mellon Trust Company prior to the deadline for receipt of proxies or you can attend the meeting in person and vote. You may also revoke your proxy by sending a notice of revocation to CIBC Mellon Trust Company by 5:00 p.m. (Calgary time) on the last business day prior to the appropriate meeting or by giving it to the Chairman of the appropriate meeting prior to commencement of the meeting.

If your AEC Shares or PanCanadian Shares are held by your broker, you will be required to contact your broker and make the necessary arrangements.

Q. When do I have to be an AEC Shareholder in order to be able to vote at the AEC Meeting?

A: If you are a registered AEC Shareholder at the close of business on February 27, 2002, you will be entitled to vote at the AEC Meeting. If you become a registered AEC Shareholder after February 27, 2002, you must, not later than 5:00 p.m. (Calgary time) on March 25, 2002, contact CIBC Mellon Trust Company and request that your name be added to the list of AEC Shareholders entitled to vote. If your broker holds your AEC Shares, you must contact your broker and provide instructions on how to vote your AEC Shares.

Q. When do I have to be a PanCanadian Shareholder in order to be able to vote at the PanCanadian Meeting?

A: If you are a registered PanCanadian Shareholder at the close of business on February 27, 2002, you will be entitled to vote at the PanCanadian Meeting. If you become a registered PanCanadian Shareholder after February 27, 2002, you must, not later than 5:00 p.m. (Calgary time) on March 25, 2002, contact CIBC Mellon Trust Company and request that your name be added to the list of PanCanadian Shareholders entitled to vote. If your broker holds your PanCanadian Shares, you must contact your broker and provide instructions on how to vote your PanCanadian Shares.

Q. What are the AEC Securityholders being asked to vote on?

A: Pursuant to the Interim Order, the Court has directed that the AEC Shareholders and AEC Optionholders, voting together, be asked to approve the AEC Arrangement Resolution at the AEC Meeting. The AEC Arrangement Resolution approves the Arrangement, which is the mechanism being used to accomplish the merger of AEC and PanCanadian.

Q. What are the PanCanadian Shareholders being asked to vote on?

A: At the PanCanadian Meeting, the PanCanadian Shareholders will conduct the regular annual meeting business and will be asked to approve the PanCanadian Combination Resolutions. The Required PanCanadian Combination Resolutions are the resolutions necessary to accomplish the merger of AEC and PanCanadian.

Q. As an AEC Shareholder what will I receive as a result of the Merger?

A: As an AEC Shareholder you will receive 1.472 PanCanadian Shares (EnCana Shares after the change of PanCanadian's name to EnCana Corporation) for each AEC Share owned. No fractional shares will be issued and you will receive a cash payment in lieu of any fractional entitlement.

Q. As a PanCanadian Shareholder what will I receive as a result of the Merger?

A: As a PanCanadian Shareholder you will keep your PanCanadian Shares. The PanCanadian Shares automatically represent EnCana Shares after the name change.

Q. How was the Exchange Ratio determined?

A: The Exchange Ratio is based on the average of the closing prices of the AEC Shares and PanCanadian Shares on the TSE for the 10 trading days ended January 23, 2002.

Q. What is the tax impact of the Merger for AEC Shareholders?

A: *Canada*

AEC Shareholders resident in Canada will generally be able to exchange their AEC Shares for EnCana Shares without incurring tax. A Canadian resident AEC Shareholder who owns not more than 2,500 AEC Shares will not be required to do anything to be eligible to exchange such holder's shares without incurring tax. **In order for Canadian resident AEC Shareholders who own more than 2,500 AEC Shares to defer realizing any taxable gain as a result of the exchange of their AEC Shares, it will be necessary to provide a completed Eligible Holder Declaration (in the form accompanying this Joint Circular) to the Depository by 4:00 p.m. (Calgary time) on April 4, 2002.** AEC has retained PricewaterhouseCoopers LLP to help

AEC Shareholders who require assistance in completing the Eligible Holder Declaration. The telephone number for the toll free “help” line is set out in the Eligible Holder Declaration.

A: United States

AEC Shareholders who are U.S. taxpayers generally should recognize no gain or loss on the exchange of their AEC Shares for EnCana Shares and need not file an Eligible Holder Declaration in order to be eligible for favourable U.S. federal income tax treatment.

Q. How do I receive EnCana Share certificates in exchange for my AEC Share certificates?

A: The enclosed Letter of Transmittal must be completed by registered holders of AEC Shares and returned with your AEC Share certificates to the Depository at any of the offices set forth in the Letter of Transmittal.

Q. If I am a PanCanadian Shareholder, do I need to send in my certificates for my PanCanadian Shares?

A: No. The PanCanadian Shares automatically become EnCana Shares following the Effective Date. If the PanCanadian Shareholders pass the resolution to change PanCanadian’s name, PanCanadian will merely change its name to EnCana. If you do wish to change your share certificate, you may contact CIBC Mellon Trust Company after the Effective Date to receive information on how to receive an EnCana Share certificate.

Q. How many votes are required at the AEC Meeting to complete the Merger?

A: The Merger must be approved by at least 66⅔% of the votes cast in respect of the AEC Shares and AEC Options, voting together, at the AEC Meeting.

Q. How many votes are required at the PanCanadian Meeting to complete the Merger?

A: The Merger must be approved by more than 50% of the votes cast at the PanCanadian Meeting. PanCanadian Shareholders will also vote on the special resolution to approve the change of the name of PanCanadian to EnCana Corporation, which requires the approval of at least 66⅔% of the votes cast at the PanCanadian Meeting.

Q. What are the other material conditions that are needed to complete the Merger?

A: The Merger is subject to the receipt of required governmental and regulatory approvals, including approval under the Competition Act and expiration or termination of all waiting periods under the HSR Act, and, in respect of the Arrangement, approval by the Court. The Merger is also subject to certain other customary conditions.

Q. Will the EnCana Shares be listed on a stock exchange?

A: The EnCana Shares will be listed on the TSE and NYSE under the ticker symbol “ECA”, subject to the satisfaction of all applicable listing requirements of such exchanges.

Q. When do you expect the Merger to be completed?

A: It is anticipated that the Merger will be completed on or about April 5, 2002.

If you are an AEC Securityholder or PanCanadian Shareholder, please direct all inquiries to:

Georgeson  Shareholder

Toll Free Number:

1-800-890-1037 English

1-888-890-2933 French

66 Wellington Street West
TD Tower — Suite 5210
Toronto-Dominion Centre
Toronto, Ontario

17 State Street
10th Floor
New York, New York

e-mail: shareholder@georgesonshareholder.com

This Joint Circular can be viewed at
www.aec.ca, www.pcenergy.com, www.gsccanada.com
or www.sedar.com

SUMMARY INFORMATION

The following is a summary of certain information contained in this Joint Circular and is qualified in its entirety by, and should be read in conjunction with, the more detailed information contained elsewhere in this Joint Circular including the attached Appendices. AEC Securityholders and PanCanadian Shareholders should carefully consider all of the information provided in this Joint Circular and, in particular, AEC Securityholders and PanCanadian Shareholders should evaluate the specific factors described under “Part I — The Merger — Risk Factors” in this Joint Circular and in Appendix I for a description of the material risks associated with the Merger.

The Merger

AEC and PanCanadian have agreed, subject to the satisfaction of certain conditions, to a merger of equals. Under the terms of the Combination Agreement, this merger of equals is to be accomplished through an arrangement in respect of AEC and the AEC Securityholders under the ABCA and certain corporate changes for PanCanadian. Under the proposed transaction, PanCanadian will acquire, directly and indirectly, all of the AEC Shares in exchange for PanCanadian Shares and PanCanadian’s name will be changed to EnCana Corporation. AEC Shareholders will receive 1.472 PanCanadian Shares (EnCana Shares after the name change) for each AEC Share they own. PanCanadian Shareholders will keep the number of PanCanadian Shares they own. The PanCanadian Shares will be EnCana Shares after the change of PanCanadian’s name to EnCana Corporation.

Benefits of the Merger

AEC and PanCanadian believe that the complementary assets and strategies of AEC and PanCanadian, in combination with their management, personnel, technical expertise and financial strength, will create an organization with capabilities and resources better positioned to succeed and grow in the highly competitive global energy marketplace. In addition, AEC and PanCanadian expect that the Merger will:

- create a world-class independent oil and gas company with an anticipated enterprise value in excess of \$27 billion and one of the world’s largest independent oil and gas companies in terms of enterprise value, reserves and production, with one of the lowest unit cost structures of its peer group (based on publicly available information at the time of the announcement of the Merger);
- offer shareholders steady growth in oil and natural gas production and reserves over the next five years as a result of AEC’s near-term and medium-term growth from North America and Ecuador and PanCanadian’s near-term growth in Western Canada and prospects for long-term growth from Eastern Canada, the Gulf of Mexico and the North Sea;
- create a strong set of complementary capabilities, drawing on the experienced management and core competencies of both AEC and PanCanadian, which is expected to create an industry-leading management and technical team with strong capabilities that can be applied across a much broader asset base;
- provide EnCana with one of the strongest balance sheets among its peer group, significant financial flexibility and an ability to optimize its capital investment program, fund its growth and pursue selective acquisitions through the full commodity price cycle;
- result in annual pretax cost savings of approximately \$250 million and annual capital program synergies of approximately \$250 million; and
- result in enhanced liquidity for shareholders.

Recommendations of the AEC Board and the PanCanadian Board

AEC Board

The AEC Board has unanimously concluded that the Arrangement is fair to AEC Shareholders and AEC Optionholders and is in the best interests of AEC.

The AEC Board and the senior officers of AEC have indicated that they intend to vote their AEC Shares and AEC Options in favour of the AEC Arrangement Resolution.

The AEC Board unanimously recommends that AEC Shareholders and AEC Optionholders vote in favour of the AEC Arrangement Resolution.

PanCanadian Board

The PanCanadian Board has unanimously concluded that the participation of PanCanadian in the Arrangement is fair to PanCanadian Shareholders and is in the best interests of PanCanadian.

The PanCanadian Board and the senior officers of PanCanadian have indicated that they intend to vote their PanCanadian Shares in favour of the PanCanadian Combination Resolutions.

The PanCanadian Board unanimously recommends that PanCanadian Shareholders vote in favour of the PanCanadian Combination Resolutions.

Opinions of Financial Advisors

AEC

CIBC World Markets and Merrill Lynch have acted as financial advisors to AEC in connection with the Arrangement. In the opinions of each of CIBC World Markets and Merrill Lynch, as at the date of each such written opinion, the consideration to be received by the AEC Shareholders pursuant to the Merger is fair to AEC Shareholders from a financial point of view, based on each advisor's review and subject to the assumptions and limitations described in such opinions. See Appendix E.

PanCanadian

RBC and CSFB have acted as financial advisors to PanCanadian in connection with the Arrangement. In the opinion of RBC, as at the date of its written opinion, based on RBC's review and assumptions and subject to the limitations summarized in such opinion, the Exchange Ratio is fair from a financial point of view to the PanCanadian Shareholders. In the opinion of CSFB, as at the date of its written opinion, based on CSFB's review and assumptions and subject to the limitations summarized in such opinion, the Exchange Ratio is fair to PanCanadian from a financial point of view. See Appendix E.

Key Approvals

AEC Securityholder Approval

Pursuant to the Interim Order, the Court has directed that the AEC Shareholders and AEC Optionholders, voting together, be asked to approve the AEC Arrangement Resolution at the AEC Meeting. The AEC Arrangement Resolution must be approved by at least 66 $\frac{2}{3}$ % of the votes cast by AEC Securityholders at the AEC Meeting. For the purpose of voting upon the AEC Arrangement Resolution at the AEC Meeting, each AEC Shareholder will be entitled to vote on the basis of one vote per share held and each AEC Optionholder will be entitled to vote on the basis of one vote for each AEC Share entitled to be acquired under an AEC Option.

PanCanadian Shareholder Approval

At the PanCanadian Meeting, the PanCanadian Shareholders will be asked to approve the PanCanadian Combination Resolutions. In order for the Arrangement to become effective, the Required PanCanadian Combination Resolutions must be approved by the PanCanadian Shareholders at the PanCanadian Meeting.

The PanCanadian Combination Resolutions must be approved by more than 50% of the votes cast at the PanCanadian Meeting, other than the amendment to the articles changing the name of PanCanadian to EnCana Corporation, which requires the approval of at least 66⅔% of the votes cast at the PanCanadian Meeting.

Court Approval

The Arrangement requires approval by the Court. Prior to the mailing of this Joint Circular, AEC obtained the Interim Order of the Court providing for the calling and holding of the AEC Meeting and other procedural matters pertaining to the Arrangement. Subject to approval of the AEC Arrangement Resolution by the AEC Securityholders at the AEC Meeting, the hearing in respect of the Final Order of the Court is scheduled to take place on April 5, 2002 at 9:00 a.m. (Calgary time) at the Court. All AEC Securityholders and other interested parties have the right to participate in, be represented at, and present evidence or arguments at the hearing in respect of the Final Order, subject to serving and filing a Notice of Appearance as set out in the Notice of Petition for the Final Order and satisfying any other applicable requirements. At the hearing of the application in respect of the Final Order, the Court will consider, among other things, the fairness of the Arrangement to the AEC Securityholders. The Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit, or may refuse to approve the Arrangement. In the event any amendment is not acceptable to either of AEC or PanCanadian, acting reasonably, either party may terminate the Combination Agreement and its obligation to consummate the Arrangement, notwithstanding the Final Order.

Other Conditions Precedent

The respective obligations of the parties to the Combination Agreement to complete the Merger are also subject to the satisfaction of certain other conditions. See “Part I — The Merger — Other Conditions Precedent”.

Timing

It is anticipated that the Merger will become effective after the requisite AEC Securityholder, PanCanadian Shareholder, Court and regulatory approvals have been obtained and all other conditions to the Merger have been satisfied or waived. It is anticipated that the Merger will become effective on or about April 5, 2002.

Stock Exchange Listings

The TSE and NYSE have conditionally approved the listing of the EnCana Shares to be issued in connection with the Merger, subject to the fulfilment of the requirements of such stock exchanges. Upon completion of the Merger and subject to the satisfaction of applicable listing requirements, the EnCana Shares will trade on both the TSE and NYSE under the trading symbol “ECA”.

AEC Share Certificates

For the AEC Shareholders, this Joint Circular is mailed with a Letter of Transmittal. AEC Shareholders are encouraged to complete the Letter of Transmittal and deliver it and the certificates representing their AEC Shares to the Depository at any of the offices set out in the Letter of Transmittal in order to receive EnCana Share certificates. In the event that the Merger is not completed, such certificates will be promptly returned. AEC Shareholders are advised to use registered mail. See “Part I — The Merger — AEC Share Certificates”.

Eligible Holder Declarations

Eligible Holders of AEC Shares (other than owners of not more than 2,500 AEC Shares) who wish to defer income taxes under the Tax Act in respect of the Arrangement must complete and file an Eligible Holder Declaration with the Depository by 4:00 p.m. (Calgary time) on the date of the AEC Meeting, scheduled for April 4, 2002.

Selected Financial and Operating Information

The following table sets out certain financial and operating information for AEC and PanCanadian, as well as unaudited pro forma financial information for EnCana after giving effect to the Merger and certain other adjustments and combined operating information, as at and for the year ended December 31, 2001. The following information should be read in conjunction with the unaudited Pro Forma Consolidated Financial Statements of EnCana set forth in Appendix F to this Joint Circular.

	AEC	PanCanadian	Pro Forma ⁽¹⁾
Financial Information (\$ millions, except per share amounts)			
Revenue, net of royalties and production taxes	\$ 6,272	\$ 10,098	\$ 16,613
Net Earnings	824	1,304	2,138
Earnings per Share – diluted	4.98	5.00	4.37
Cash Flow	2,023	2,306	4,394
Cash Flow per Share – diluted	12.57	8.82	9.08
Current Assets	1,409	2,375	4,033
Total Assets	14,098	10,859	29,233
Current Liabilities	1,334	2,224	3,871
Total Long-term Debt	4,242	2,118	6,881
Preferred Securities	859	126	589
Shareholders' Equity	5,957	4,038	12,910
Capital Expenditures, excluding acquisitions and dispositions	3,209	1,946	5,155
Operating Information			
Sales Volumes			
<i>Natural Gas (mmcf/d)</i>			
Western Canada	1,106	982	2,088
U.S. Rockies	217	62	279
U.K.	–	9	9
Total Produced Gas Sales	1,323	1,053	2,376
<i>Liquids (bbls/d)</i>			
North America Conventional	53,000	103,086	156,086
Syncrude	30,687	–	30,687
Total North America Liquids	83,687	103,086	186,773
Total International Liquids	51,899	11,362	63,261
Total Liquid Sales	135,586	114,448	250,034
Total BOE/d Sales	356,086	289,899	645,985
Gross Proved Reserves, constant price, before royalties			
Natural Gas (bcf)	4,520	3,897	8,417
Liquids (mmbbls) ⁽¹⁾	926	362	1,288
Total (mmboe)	1,679	1,011	2,690
Net Undeveloped Land (thousands of acres)			
Canada	9,471	11,200	20,671
United States	1,844	820	2,664
International	2,910	10,101	13,011
Total	14,225	22,121	36,346

(1) Includes gross proved reserves before royalties associated with AEC's 13.75% interest in the Syncrude project.

Abbreviations:

bbls/d	barrels per day	mmbbls	million barrels
bcf	billion cubic feet	mmboe	million barrels of oil equivalent
BOE/d	barrels of oil equivalent per day (6:1)	mmcf/d	million cubic feet per day

PART I — THE MERGER

On January 27, 2002, AEC and PanCanadian entered into an agreement providing for the merger of AEC and PanCanadian. Under the terms of the Combination Agreement, this merger of equals is to be accomplished through an arrangement in respect of AEC and the AEC Securityholders under the ABCA and certain corporate changes for PanCanadian, including the change of its name to EnCana Corporation. If the Merger is completed, AEC Shareholders will receive 1.472 PanCanadian Shares (EnCana Shares after the name change) for each AEC Share that they own and AEC Optionholders will have their AEC Options converted into options to purchase EnCana Shares on the basis of 1.472 EnCana Shares for each AEC Share subject to an AEC Option, with an exercise price per EnCana Share equal to the exercise price per AEC Share in respect of the AEC Option divided by 1.472. The Merger will not result in any change to any outstanding PanCanadian Shares or PanCanadian Options.

Background to the Merger

Following a change in senior management at PanCanadian, Mr. Gwyn Morgan, the President and Chief Executive Officer of AEC, contacted Mr. David P. O'Brien, the Chairman and Chief Executive Officer of PanCanadian, on October 16, 2001 and asked to meet Mr. O'Brien. Mr. Morgan and Mr. O'Brien met on October 29, 2001, at which meeting Mr. Morgan raised the possibility of a merger between AEC and PanCanadian.

At the PanCanadian Board meeting held on November 14, 2001, Mr. O'Brien advised the PanCanadian Board of Mr. Morgan's approach to him and recommended that the PanCanadian Board retain financial advisors to consider various strategic options available to PanCanadian, including the possibility of a merger with AEC or other entities. The PanCanadian Board accepted this recommendation and directed Mr. O'Brien to retain RBC.

On November 19, 2001, PanCanadian retained RBC to provide analysis and recommendations on various possible strategies for PanCanadian's future development and growth prospects, including large acquisitions, smaller acquisitions, possible merger opportunities with various entities (including AEC) and organic growth.

At the AEC Board meeting held on December 11, 2001, Mr. Morgan reported to the AEC Board on his contacts with Mr. O'Brien and the AEC Board authorized Mr. Morgan to continue discussions with respect to a possible merger of the two companies.

At the PanCanadian Board meeting held on December 18, 2001, RBC provided the results of their analysis of the various alternatives, including their view of a possible merger with AEC, to the PanCanadian Board. After considerable discussion at the PanCanadian Board meeting on December 18, 2001 and the PanCanadian Board meeting on December 19, 2001 and after considering a number of factors, including the various alternatives available to PanCanadian, the PanCanadian Board authorized advancing discussions with AEC with respect to a possible merger of equals.

Following the PanCanadian Board meeting, Mr. O'Brien and Mr. Morgan had further discussions until December 21, 2001. Following a lengthy discussion on December 21, 2001, Mr. O'Brien and Mr. Morgan agreed that no further discussions would occur until January 3, 2002.

On January 10, 2002, AEC and PanCanadian entered into a reciprocal confidentiality agreement pursuant to which they agreed to permit each other access to certain confidential information that would be relevant to a possible merger and agreed not to pursue any alternative transaction for a period of 30 days.

Between January 10, 2002 and January 27, 2002, certain members of management of each of AEC and PanCanadian and their financial and legal advisors were in contact on numerous occasions for the purpose of conducting due diligence and negotiating the terms of a proposed merger.

At the request of the TSE, prior to the opening of North American markets on January 25, 2002, AEC and PanCanadian each issued a news release advising that they were in discussions with respect to a potential merger of equals with a share exchange ratio at market, based on recent trading averages. On January 26 and 27, 2002, AEC and PanCanadian finalized the terms of the proposed merger for consideration by their respective boards.

On Sunday, January 27, 2002, following deliberations, each of the AEC Board and PanCanadian Board authorized the entering into of the Combination Agreement. The Combination Agreement was then executed by AEC and PanCanadian and a joint news release was issued announcing the agreement between AEC and PanCanadian.

Benefits of the Merger

AEC and PanCanadian believe that the complementary assets and strategies of AEC and PanCanadian, in combination with their management and other personnel, technical expertise and financial strength, will create an organization with capabilities and resources better positioned to succeed and grow in the highly competitive global energy marketplace.

World-Class Independent Oil and Gas Company

EnCana would be a world-class independent oil and gas company with an anticipated enterprise value in excess of \$27 billion. Enterprise value is comprised of the market value of outstanding shares plus long-term debt, project financing debt and preferred securities, less working capital. EnCana is expected to be one of the world's largest independent oil and gas companies in terms of enterprise value, reserves and production, with one of the lowest unit cost structures of its peer group (based on publicly available information at the time of the announcement of the Merger) and to have one of the most attractive growth profiles in the industry.

Growth Prospects

The Merger is expected to offer shareholders steady growth in oil and gas production and reserves over the next five years as a result of the timing of AEC's and PanCanadian's respective development projects.

The growth prospects from the asset positions of AEC and PanCanadian are complementary as AEC brings near-term and medium-term internal growth from North America and Ecuador while PanCanadian brings near-term growth in Western Canada and prospects for long-term growth from Eastern Canada, the Gulf of Mexico and the North Sea. EnCana will have additional growth potential from exploration in Northern Canada, Alaska, Australia, Azerbaijan, the Middle East and Brazil.

Strategic Fit and Compatibility

AEC and PanCanadian believe that the Merger will create a strong set of complementary capabilities, drawing upon the experienced management and core competencies of both AEC and PanCanadian. The Merger is expected to create an industry-leading management and technical team with strong capabilities that can be applied across a much broader asset base. As a result of the Merger, EnCana will have numerous quality asset positions including the Western Canada Sedimentary Basin, offshore East Coast Canada, the U.S. Rocky Mountains, the Gulf of Mexico, the U.K. Central North Sea and the Oriente Basin of Ecuador.

Expanded Scope and Scale

The enhanced size and organizational reach is expected to enable EnCana to compete more effectively on a global basis. EnCana will benefit from the balance provided by a larger portfolio of projects at various stages of their life cycles, reducing the dependence on any one large scale development. EnCana will also have the size and technical capabilities to manage the challenges associated with developing high impact North American, international and offshore projects.

Strong Financial Position

It is anticipated that EnCana will have one of the strongest balance sheets among its peer group, providing significant financial flexibility. The strong balance sheet and diversified portfolio base should allow EnCana to optimize its capital investment program, fund its growth and pursue selective acquisitions throughout the full commodity price cycle to enhance its future returns from capital investments.

Cost Savings and Optimization

AEC and PanCanadian estimate achieving annual pretax cost savings of approximately \$250 million that will come from gaining efficiencies in overlapping operations, streamlining business practices, improving procurement practices, building a common information technology base and incorporating best practices. AEC and PanCanadian expect to achieve this annual savings from synergies within 12 months following the completion of the Merger. In addition, AEC and PanCanadian expect to achieve annual capital program synergies of approximately \$250 million.

Following the Merger, EnCana will consider optimizing its asset growth through acquisitions in key areas and dispositions of those assets and businesses less suited to EnCana's strategy.

Enhanced Liquidity and Valuation for Shareholders

AEC and PanCanadian believe that the larger market capitalization created by the Merger should result in greater trading liquidity in the EnCana Shares. The increased scale, anticipated production growth and market capitalization resulting from the Merger is also expected to improve the valuation that either AEC or PanCanadian would otherwise receive. The largest exploration and production companies generally trade at premium valuations, as demonstrated by higher multiples of cash flow or earnings when compared to their smaller peers. These premium valuations appear to reflect the equity market's assessment of the advantages of size in the sector, resulting in reductions in risks and costs, improved business opportunities and trading liquidity. A higher valuation would result in a lower cost of capital that can be used as a competitive advantage in funding new growth opportunities. It is also anticipated that this increased market capitalization of EnCana will lead to broader investor interest than either AEC or PanCanadian would otherwise receive.

EnCana Corporation

Upon completion of the Merger, it is proposed that EnCana will be governed by a 16 person board of directors comprised of eight existing directors of AEC and eight existing directors of PanCanadian. Pursuant to the Combination Agreement, AEC and PanCanadian have agreed that the Chairman of the EnCana Board will be David P. O'Brien and the President and Chief Executive Officer of EnCana will be Gwyn Morgan.

An integration steering team lead by senior management of both AEC and PanCanadian has been established to develop an integration plan for EnCana. As well, transition teams comprised of members of senior management from each of AEC and PanCanadian have been established to prepare detailed integration and business plans for the divisions into which EnCana will be organized following the completion of the Merger. It is anticipated that by the Effective Date, the integration steering team will have a detailed set of recommendations as to specific operating parameters, organizational structure and staffing decisions. The aim is to integrate the operations of AEC and PanCanadian quickly and efficiently after the Effective Date.

EnCana's proposed operating divisions are:

- Onshore North American Upstream Division;
- Offshore, International and New Ventures Exploration Division;
- Offshore and International Development and Production Division; and
- Midstream and Marketing Division.

Each of these divisions will be supported by four corporate groups: Corporate Finance; Corporate Services; Corporate Relations; and Corporate Development.

For additional information on EnCana following the completion of the Merger, see "Part II — EnCana Corporation".

AEC Deliberations and Recommendations

Deliberations of and Recommendations by the AEC Board

At the regularly scheduled meeting of the AEC Board held on December 11, 2001, the President and Chief Executive Officer of AEC advised the AEC Board of his discussions with the Chairman and Chief Executive Officer of PanCanadian and outlined some of the potential benefits to AEC from a merger with PanCanadian. After considering the information provided by the President and Chief Executive Officer of AEC and other potential merger or acquisition opportunities available to AEC, the AEC Board authorized senior management of AEC to continue preliminary discussions with PanCanadian and conduct investigations into the merits of a transaction with PanCanadian.

At a meeting of the AEC Board held on December 21, 2001, the President and Chief Executive Officer of AEC reported on the status of analyses and preliminary discussions concerning the potential merger and the AEC Board again concurred with continuing the analyses and discussions.

On January 4, 2002, AEC retained CIBC World Markets and Merrill Lynch as financial advisors in connection with the potential merger.

On January 18, 2002, the AEC Board held a meeting at which AEC's senior management and its financial advisors and legal advisors were present. Senior management made presentations on the status of the discussions with PanCanadian and on the background and strategic rationale of the proposed merger. Each of AEC's financial advisors provided its general views of the financial aspects of the proposed merger and AEC's legal advisors reviewed the fiduciary duties of the AEC Board and discussed various other legal issues relating to the proposed merger.

On January 24, 2002, the AEC Board held a meeting at which AEC's senior management provided further discussion and analyses of the proposed merger and reviewed with the AEC Board the progress of negotiations with PanCanadian as well as due diligence matters. Each of CIBC World Markets and Merrill Lynch made presentations on the financial aspects of the transaction.

On January 27, 2002, the AEC Board met to consider the approval of the proposed merger. At this meeting, members of senior management updated the AEC Board on the status of negotiations in respect of the proposed combination agreement. Each of CIBC World Markets and Merrill Lynch made presentations to the AEC Board on the financial aspects of the transaction and each delivered its written opinion that the consideration to be received pursuant to the proposed merger is fair, from a financial point of view, to AEC Shareholders. Together with legal counsel, the AEC Board reviewed in detail the proposed terms of the Combination Agreement and discussed various legal and tax matters relating to the proposed merger. Following further discussions, the AEC Board unanimously approved the Combination Agreement and unanimously recommended that AEC Securityholders vote in favour of the AEC Arrangement Resolution.

The AEC Board unanimously determined, based on the considerations noted below, that the Arrangement is fair to AEC Shareholders and AEC Optionholders and is in the best interests of AEC. In reaching its conclusion, the AEC Board considered, among other things, the following:

- the benefits of the Merger outlined above;
- the all share consideration offered in connection with the Merger provides AEC Securityholders with an opportunity to participate in the ownership of a larger, financially stronger company that is expected to be well positioned to respond to opportunities and developments in an industry in which size is increasingly important;
- the balance sheet of EnCana will be one of the strongest balance sheets among its peer group, providing the financial strength to pursue both internal and external growth opportunities;
- the historical and the then current trading prices of AEC Shares and PanCanadian Shares;
- the significant opportunities for the combined company to realize substantial annual pretax cost synergies anticipated to be approximately \$250 million within 12 months following the completion of the Merger and annual capital synergies anticipated to be approximately \$250 million;

- the expectation that the Merger would be accretive to AEC's earnings per share and neutral to AEC's cash flow per share based on recent consensus security analyst estimates for 2002 and the achievement of the anticipated synergies;
- the expectation of enhanced liquidity for AEC Shareholders resulting from the larger market capitalization and increased investor interest created by the Merger;
- the opinions of each of CIBC World Markets and Merrill Lynch to the effect that, as of January 27, 2002, and subject to the limitations and assumptions set forth therein, the consideration to be received by AEC Shareholders pursuant to the Merger is fair, from a financial point of view, to AEC Shareholders;
- the receipt by AEC Shareholders of EnCana Shares under the Merger is generally expected to be completed on a tax-deferred basis for most AEC Shareholders;
- under and subject to the conditions of the Combination Agreement, the AEC Board remains able to respond to an unsolicited *bona fide* written Acquisition Proposal that is more favourable to AEC Shareholders than the Merger;
- the proposed composition of the EnCana Board, which is to consist of equal representation from each of AEC and PanCanadian;
- management's review of, and the advice with respect to, the financial condition, results of operations, business plans and prospects of each of AEC and PanCanadian and the prospects of EnCana after the Merger;
- potential merger and acquisition alternatives; and
- the Arrangement must be approved by AEC Securityholders and by the Court.

The information and factors described above and considered by the AEC Board in making its decision is not intended to be exhaustive but includes material factors considered by the AEC Board. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the complexity of these matters, the AEC Board did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, individual members of the AEC Board may have given different weight to different factors.

At meetings of the AEC Board held on February 19 and 20, 2002, the AEC Board, among other things, reviewed the status of the Merger, approved this Joint Circular and reaffirmed its recommendation that AEC Securityholders vote in favour of the AEC Arrangement Resolution.

The AEC Board and the senior officers of AEC have indicated that they intend to vote their AEC Shares and AEC Options in favour of the AEC Arrangement Resolution.

The AEC Board unanimously recommends that AEC Shareholders and AEC Optionholders vote in favour of the AEC Arrangement Resolution.

Opinions of Financial Advisors to AEC

AEC retained CIBC World Markets and Merrill Lynch as its financial advisors in connection with the Merger. With respect to such engagement, AEC requested each of CIBC World Markets and Merrill Lynch to render a written opinion as to whether or not the consideration to be received by AEC Shareholders pursuant to the Merger is fair to AEC Shareholders from a financial point of view.

In connection with the AEC Board's consideration of the Merger, each of CIBC World Markets and Merrill Lynch delivered its written opinion on January 27, 2002. Based on their respective review and assumptions and subject to the limitations summarized therein, each of CIBC World Markets and Merrill Lynch was of the opinion that the consideration to be received by AEC Shareholders pursuant to the Merger is fair to AEC Shareholders from a financial point of view.

The full text of the written opinion of CIBC World Markets dated January 27, 2002 (the "CIBC World Markets Opinion") and the full text of the written opinion of Merrill Lynch dated January 27, 2002 (the "Merrill

Lynch Opinion”), each of which sets forth the assumptions made, matters considered and limitations on the review undertaken, are set forth in Appendix E to this Joint Circular. **AEC Securityholders are urged to read carefully the CIBC World Markets Opinion and the Merrill Lynch Opinion in their entirety.** This summary of the CIBC World Markets Opinion and the Merrill Lynch Opinion is qualified in its entirety by reference to the full text of such opinions. The CIBC World Markets Opinion and the Merrill Lynch Opinion were prepared at the request and for the information of the AEC Board and do not constitute a recommendation to any holder of AEC Shares or AEC Options as to how any such AEC Securityholders should vote with respect to the Merger.

In arriving at their opinion, CIBC World Markets and Merrill Lynch reviewed, among other things: (a) the draft combination agreement; (b) certain publicly available business and financial information with respect to each of AEC and PanCanadian; (c) budgets and financial forecasts prepared by the respective managements; and (d) financial and stock market data relating to AEC and PanCanadian and other selected relevant publicly traded companies. CIBC World Markets and Merrill Lynch conducted discussions with the management, auditors and legal counsel of both companies, and with the financial advisors to PanCanadian. In addition, CIBC World Markets and Merrill Lynch reviewed certain publicly available business and financial information with respect to the oil and gas business, publicly available financial terms of certain other business combinations, and such other information as CIBC World Markets and Merrill Lynch considered relevant under the circumstances of the Merger.

Each of CIBC World Markets and Merrill Lynch will receive fees for its services in connection with the Merger, significant portions of which are contingent upon the consummation of the Merger. AEC has also agreed to indemnify CIBC World Markets and Merrill Lynch and certain related persons against certain liabilities in connection with their engagements, including certain liabilities under securities legislation. Each of CIBC World Markets and Merrill Lynch has, in the past, provided, and may in the future, in the ordinary course of its business, perform financial advisory, commercial banking or investment banking and other related services for AEC, PanCanadian or any of their respective associates or affiliates and each of CIBC World Markets and Merrill Lynch has and will receive customary fees for such services. In the ordinary course of business, each of CIBC World Markets and Merrill Lynch or its affiliates may trade in the debt and equity securities of both AEC and PanCanadian for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

PanCanadian Deliberations and Recommendations

Deliberations of and Recommendations by the PanCanadian Board

At the PanCanadian Board meeting held on November 14, 2001, Mr. O’Brien advised the PanCanadian Board of Mr. Morgan’s approach to him regarding a possible merger with AEC. Following Mr. O’Brien’s recommendation, the PanCanadian Board authorized Mr. O’Brien to retain financial advisors for the purpose of providing strategic analysis of the various options available to PanCanadian.

On November 19, 2001, PanCanadian retained RBC to provide analysis and recommendations on various possible strategies for PanCanadian’s future development and growth prospects, including large acquisitions, smaller acquisitions, possible merger opportunities with various entities and organic growth.

At a meeting of the PanCanadian Board on December 18, 2001, the PanCanadian Board considered various alternative courses of action available to PanCanadian, including its review of information and analysis regarding a possible merger with AEC or another entity. RBC provided the results of its analysis of the various alternatives available to PanCanadian, including its view of a proposed merger with AEC. The PanCanadian Board was also advised of and considered the market reaction to the merger of equals transaction between Conoco Inc. and Phillips Petroleum Company announced on November 18, 2001. The alternative courses of action were discussed further at the PanCanadian Board meeting held on December 19, 2001. After considerable discussion and after considering a number of factors, including the various alternatives available to PanCanadian, the PanCanadian Board authorized advancing discussions with AEC with respect to a possible merger of equals.

On January 4, 2002, PanCanadian contacted CSFB to retain it as a financial advisor regarding the possible merger.

At a PanCanadian Board meeting held on January 16, 2002, senior management described the status of the due diligence and discussions held to that date between representatives of AEC and PanCanadian. At a further PanCanadian Board meeting on January 22, 2002, senior management briefed the PanCanadian Board as to the status of the discussions with AEC. Detailed presentations were made by PanCanadian's financial advisors analyzing the proposed merger. PanCanadian's legal advisors reviewed with the PanCanadian Board its fiduciary duties and discussed various other legal issues relating to the proposed merger.

On January 27, 2002, the PanCanadian Board met to consider the terms negotiated for the proposed merger, the draft combination agreement and the proposed exchange ratio. At such meeting, each of RBC and CSFB delivered its written fairness opinion described below. The PanCanadian Board also received presentations from its management regarding the terms of the proposed merger. It also received the advice of its legal counsel regarding the legal, tax and regulatory matters required to effect the proposed merger and advice with respect to the terms of the proposed combination agreement.

After discussion, the PanCanadian Board made the determinations and resolved unanimously to make the recommendations set out below and authorized the entering into of the Combination Agreement.

The PanCanadian Board unanimously determined, based on the considerations noted below, that the participation of PanCanadian in the Arrangement is fair to the PanCanadian Shareholders and is in the best interests of PanCanadian. In reaching its conclusions, the PanCanadian Board considered, among other things, the following:

- the benefits of the Merger outlined above;
- the all share consideration offered to AEC Securityholders, in connection with the Merger would provide PanCanadian Shareholders with an opportunity to participate in the ownership of a larger company with more diversified exploration opportunities, significant near-term production growth and new business lines;
- the combined business would have important operational advantages, including anticipated reductions in the cost of capital, enhanced technical capabilities and organizational scale that is expected to permit the combined business to realize greater returns on the combined assets and employed capital in an industry in which economies of scale are increasingly important;
- the significant financial strength of the combined business, including a strong balance sheet and anticipated annual pretax cost savings of \$250 million arising from operational synergies within 12 months following the completion of the Merger and an additional anticipated \$250 million in annual capital synergies;
- the expectation that the Merger would be accretive to PanCanadian's cash flow per share and neutral to PanCanadian's earnings per share, based on recent consensus security analyst estimates for 2002 and the achievement of the anticipated synergies;
- potential benefits to employees in respect of expanded opportunities;
- the expectation of enhanced liquidity for PanCanadian Shareholders resulting from the larger market capitalization and increased investor interest created by the Merger;
- the Exchange Ratio in light of the historical and recent trading values of AEC Shares and PanCanadian Shares and other measures of PanCanadian's relative share value;
- the opinions of RBC and CSFB, as of January 27, 2002, based on the review and assumptions and subject to the limitations summarized in such opinions, that, in the case of RBC, the Exchange Ratio is fair from a financial point of view to PanCanadian Shareholders and that, in the case of CSFB, the Exchange Ratio is fair to PanCanadian from a financial point of view;
- the Merger is to be approved by PanCanadian Shareholders;
- under and subject to the conditions of the Combination Agreement, the PanCanadian Board remains able, subject to the payment of a liquidated damages fee, to respond to an unsolicited *bona fide* written Acquisition Proposal that is more favourable to PanCanadian Shareholders than the Merger;

- the proposed composition of the EnCana Board, which is to consist of equal representation from each of AEC and PanCanadian;
- management's review of, and the advice with respect to, the financial condition, results of operations, business plans and prospects of each of PanCanadian and AEC and the prospects of EnCana after the Merger; and
- potential merger and acquisition alternatives.

The information and factors described above and considered by the PanCanadian Board in making its decision is not intended to be exhaustive but includes material factors considered by the PanCanadian Board. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the complexity of these matters, the PanCanadian Board did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, individual members of the PanCanadian Board may have given different weight to different factors.

At the PanCanadian Board meeting held on February 20, 2002, the PanCanadian Board reviewed the draft PanCanadian Circular, the draft Joint Circular and related materials and received advice from counsel on various matters. Following such review and further discussion, the PanCanadian Board unanimously approved the PanCanadian Circular and this Joint Circular and reaffirmed its recommendation that PanCanadian Shareholders vote in favour of the PanCanadian Combination Resolutions.

The PanCanadian Board and the senior officers of PanCanadian have indicated that they intend to vote their PanCanadian Shares in favour of the PanCanadian Combination Resolutions.

The PanCanadian Board has unanimously approved the Combination Agreement and unanimously recommends that the PanCanadian Shareholders vote in favour of the PanCanadian Combination Resolutions.

Opinions of Financial Advisors to PanCanadian

PanCanadian retained RBC and CSFB on November 19, 2001 and January 15, 2002, respectively, as financial advisors to PanCanadian and the PanCanadian Board in connection with the Merger. RBC delivered its written opinion dated January 27, 2002, to the PanCanadian Board (the "RBC Fairness Opinion"), that as of such date, based on RBC's review and assumptions and subject to the limitations summarized in the RBC Fairness Opinion, the Exchange Ratio is fair from a financial point of view to the PanCanadian Shareholders. CSFB delivered its written opinion, dated January 27, 2002 to the PanCanadian Board (the "CSFB Fairness Opinion"), that as of such date, based on CSFB's review and assumptions and subject to the limitations summarized in the CSFB Fairness Opinion, the Exchange Ratio is fair to PanCanadian from a financial point of view.

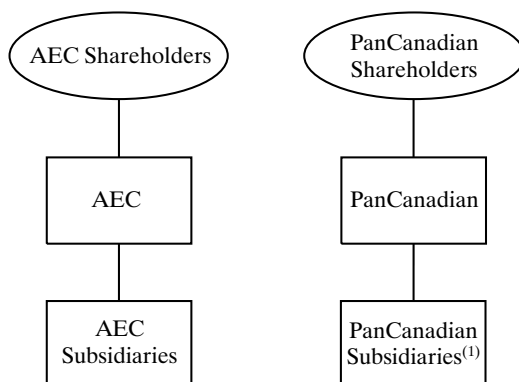
The full text of the RBC Fairness Opinion, which sets forth, among other things, the assumptions made, procedures followed, information reviewed, matters considered and limitations on the review undertaken, is attached to this Joint Circular and contained in Appendix E. The full text of the CSFB Fairness Opinion, which sets forth, among other things, the assumptions made, procedures followed, information reviewed, matters considered and limitations on the review undertaken, is attached to this Joint Circular and contained in Appendix E. **PanCanadian Shareholders are urged to read carefully each of the RBC Fairness Opinion and the CSFB Fairness Opinion in its entirety.** The summary of each of the RBC Fairness Opinion and CSFB Fairness Opinion set forth in this Joint Circular is qualified in its entirety by reference to the full text of each such opinion. Each of the RBC Fairness Opinion and CSFB Fairness Opinion is for the use and benefit of the PanCanadian Board in connection with its consideration of the Merger, does not address the merits of the underlying decision by PanCanadian to engage in the Merger and does not constitute a recommendation to the PanCanadian Shareholders as to how such shareholders should vote on the PanCanadian Combination Resolutions or any matter related thereto. Neither RBC nor CSFB was asked to solicit expressions of interest from, or negotiate with, any third parties concerning potential alternatives to the Merger.

Each of RBC and CSFB will receive fees for their services in connection with the Merger, a significant portion of each of which is contingent upon the completion of the Merger. PanCanadian has also agreed to indemnify RBC and CSFB and certain related persons against certain liabilities in connection with their engagements, including certain liabilities under securities legislation.

Each of RBC and CSFB and their respective associates and affiliates has, in the past, provided and may in the future, in the ordinary course of its business, perform financial advisory, commercial banking or investment banking and other related services for PanCanadian, AEC or any of their respective associates or affiliates and each of RBC and CSFB has and will receive fees for such services. In the ordinary course of business, each of RBC and CSFB or their affiliates may trade in the debt and equity securities of both AEC and PanCanadian, and the debt securities of their subsidiaries for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

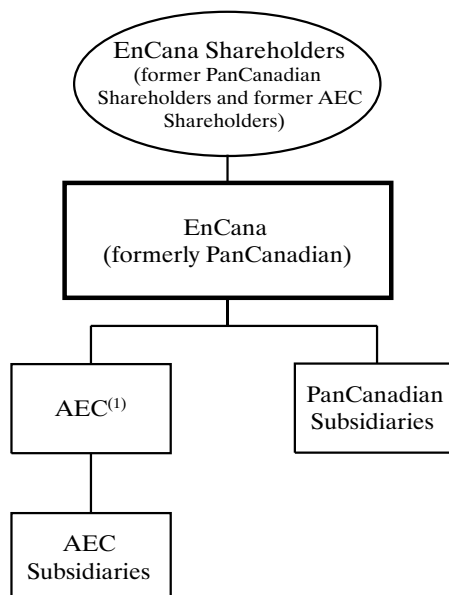
Corporate Organization Structure

The following is an abbreviated corporate organizational structure of AEC and PanCanadian before the completion of the Merger.



(1) Includes ArrangeCo.

The following is an abbreviated corporate organizational structure of EnCana after the completion of the Merger.



(1) All of the AEC Shares will be owned by ArrangeCo, a wholly-owned subsidiary of EnCana.

Details of the Merger

The Merger is to be effected by a number of steps, including the completion of the Arrangement.

The Arrangement

The terms of the Arrangement are set forth in the Plan of Arrangement which is annexed to the Combination Agreement as Schedule A. The Combination Agreement is set forth in Appendix D to this Joint Circular. The description in this Joint Circular of the Arrangement and the Combination Agreement is qualified in its entirety by reference to the full text of the Plan of Arrangement and the Combination Agreement.

The following summarizes the events which will occur under the Plan of Arrangement on the Effective Date, if all conditions to the implementation of the Merger have been satisfied or waived:

- (a) the AEC Shareholder Rights Plan will terminate and cease to have any further force or effect and the outstanding Rights (as defined therein) will be cancelled;
- (b) all AEC Shares will be exchanged on the following basis:
 - (i) all of the AEC Deemed Eligible Shares and all of the issued and outstanding AEC Shares beneficially owned by Eligible Holders will be transferred to PanCanadian, solely in exchange for the issue by PanCanadian of fully paid and non-assessable PanCanadian Shares on the basis of the Exchange Ratio; and
 - (ii) all of the issued and outstanding AEC Shares, other than the AEC Deemed Eligible Shares and other than AEC Shares beneficially owned by Eligible Holders, will be transferred to ArrangeCo, solely in exchange for the issue by PanCanadian of fully paid and non-assessable PanCanadian Shares on the basis of the Exchange Ratio, in consideration for which ArrangeCo will issue preferred shares to PanCanadian;
- (c) PanCanadian shall issue, in accordance with and pursuant to the PanCanadian Shareholder Rights Plan, one PanCanadian SRP Right for each whole PanCanadian Share issued pursuant to (b) above; and
- (d) any AEC Options which are outstanding on the Effective Date will be converted into options to purchase the number of PanCanadian Shares equal to the number determined by multiplying the number of AEC Shares subject to such AEC Options at the Effective Date by 1.472, at an exercise price per PanCanadian Share equal to the exercise price per AEC Share divided by 1.472.

No fractional PanCanadian Shares will be issued pursuant to the Plan of Arrangement. Where the aggregate number of PanCanadian Shares to be issued to a holder of AEC Shares would result in a fraction of a PanCanadian Share being issued, such holder shall receive in lieu of such fractional PanCanadian Share, a cash payment (rounded to the nearest whole cent) equal to the fraction of a PanCanadian Share otherwise issuable multiplied by the average closing trading price for EnCana Shares on the TSE for the first three trading days on which the EnCana Shares are traded following the Effective Date. Such cash payments will be made in U.S. dollars for AEC Shareholders who so request in the Letter of Transmittal. All payments in U.S. dollars will be calculated as above in Canadian dollars and converted into U.S. dollars using the noon spot rate of the Bank of Canada on the Effective Date.

Following the completion of the Arrangement, the AEC Shares transferred to PanCanadian pursuant to the Arrangement will be transferred by PanCanadian to ArrangeCo. As a result, on completion of the Merger, the AEC Shareholders and PanCanadian Shareholders will hold PanCanadian Shares (EnCana Shares after the name change) and ArrangeCo will hold all of the AEC Shares.

PanCanadian Board and Name Change

Subject to the PanCanadian Combination Resolution regarding the election of directors having been passed at the PanCanadian Meeting, the size of the PanCanadian Board will be increased upon the Arrangement becoming effective to comprise 16 members, eight of whom are currently directors of AEC and eight of whom are currently directors of PanCanadian. The Arrangement is conditional upon this resolution being passed at the PanCanadian Meeting.

Subject to the PanCanadian Combination Resolution authorizing the change of name of PanCanadian having been passed at the PanCanadian Meeting, immediately following the Arrangement becoming effective PanCanadian will file articles of amendment under the CBCA to change its name to EnCana Corporation.

Effect on Other AEC Securities

AEC has outstanding two series of Capital Securities, being unsecured junior subordinated debentures: (a) the 8.38% Capital Securities due June 27, 2040 in the aggregate principal amount of \$230 million; and (b) the 8.50% Capital Securities due December 20, 2040 in the aggregate principal amount of \$200 million. Under the terms of the AEC Capital Securities, AEC has the right to satisfy certain of its principal and interest obligations by issuing AEC Shares. Pursuant to the Combination Agreement, AEC has agreed that prior to the Arrangement becoming effective, it will enter into a supplemental indenture with the trustee for the AEC Capital Securities providing for the surrender of AEC's right to issue AEC Shares to holders of AEC Capital Securities. All other terms of the AEC Capital Securities will remain unchanged. Upon completion of the Merger, the AEC Capital Securities will remain obligations of AEC in accordance with their terms.

The other outstanding AEC debt securities, including AEC's preferred securities, will remain obligations of AEC without any alteration to their terms.

Effect on Other PanCanadian Securities

The outstanding PanCanadian preferred securities and debt securities will remain obligations of PanCanadian (EnCana after the name change) without any alteration to their terms.

AEC Shareholder Investment Plan

AEC has a shareholder investment plan (the "SIP") which enables AEC Shareholders to purchase AEC Shares through reinvestment of dividends received on their AEC Shares and the investment of cash payments. Participants in the SIP have the same rights in respect of AEC Shares purchased under the plan as in respect of other AEC Shares registered in the participant's name; however, a participant may not vote any fraction of an AEC Share.

The AEC Board has resolved to terminate the SIP upon and subject to the Arrangement becoming effective. In the event the Arrangement becomes effective, certificates for the whole number of EnCana Shares that SIP participants become entitled to, together with cheques for the net proceeds of the sale of any fractions (which will be sold at market for the participants by the administrator of the SIP) and any uninvested cash payments, will be sent to such participants as soon as practicable after the Effective Date. In the event the Arrangement is not effected, the SIP will not terminate and all subsequent AEC dividends payable to participants in the SIP and any investment of cash payments will be dealt with in the usual way under the SIP.

The dividend on the AEC Shares declared payable on March 28, 2002 to AEC Shareholders of record on March 7, 2002, which is paid to participants in the SIP, will be reinvested in AEC Shares on the April 1, 2002 investment date, prior to the Arrangement being effected.

Key Approvals

AEC Securityholder Approval

Pursuant to the Interim Order, the Court has directed that the AEC Shareholders and AEC Optionholders, voting together, be asked to approve the AEC Arrangement Resolution at the AEC Meeting. Pursuant to the Interim Order, the Court has directed that the AEC Meeting pertaining to the AEC Arrangement Resolution be held at 9:30 a.m. (Calgary time) on April 4, 2002 at the TELUS Convention Centre, Calgary, Alberta.

The AEC Arrangement Resolution must be approved by at least 66⅔% of the votes cast by AEC Securityholders at the AEC Meeting, subject to further order of the Court. For the purpose of voting upon the AEC Arrangement Resolution at the AEC Meeting, each AEC Shareholder will be entitled to vote on the basis of one vote per AEC Share held and each AEC Optionholder will be entitled to vote on the basis of one vote for each AEC Share entitled to be acquired under an AEC Option. The AEC Shareholders and AEC Optionholders shall vote together as one class.

As at February 15, 2002, there were 147,768,133 AEC Shares and 9,586,938 AEC Options outstanding.

Forms of proxy for voting at the AEC Meeting accompany this Joint Circular. **To be used at the AEC Meeting, a proxy must be deposited with CIBC Mellon Trust Company at its principal office in Calgary not later than 5:00 p.m. (Calgary time) on the second business day immediately preceding the date of the AEC Meeting or any adjournment of the AEC Meeting. Further information relating to the use of proxies is set forth under “Part V — Proxy and Voting Matters”.**

PanCanadian Shareholder Approval

At the PanCanadian Meeting, the PanCanadian Shareholders will be asked to approve the PanCanadian Combination Resolutions. The PanCanadian Meeting will be held at 12:30 p.m. (Calgary time) on April 4, 2002 at the TELUS Convention Centre, Calgary, Alberta. The PanCanadian Combination Resolutions (other than the amendment to the articles of PanCanadian changing the name of PanCanadian to EnCana Corporation, which requires the approval of at least 66 $\frac{2}{3}$ % of the votes cast) must be approved by more than 50% of the votes cast at the PanCanadian Meeting. For the purpose of voting upon the PanCanadian Combination Resolutions at the PanCanadian Meeting, each PanCanadian Shareholder will be entitled to one vote for each PanCanadian Share held.

The Merger is conditional upon the approval by PanCanadian Shareholders of those PanCanadian Combination Resolutions which constitute the Required PanCanadian Combination Resolutions.

Accordingly, the Merger is not conditional upon the approval by PanCanadian Shareholders of the change of name of PanCanadian to EnCana Corporation or the amendments to the PanCanadian Employee Option Plan or the PanCanadian Directors' Option Plan. If the Merger becomes effective and the change of name of PanCanadian has not been approved, PanCanadian will use its best efforts to effect a name change as soon as possible thereafter.

As at February 15, 2002, there were 255,358,686 PanCanadian Shares outstanding.

A form of proxy for voting at the PanCanadian Meeting accompanies this Joint Circular. **To be used at the PanCanadian Meeting, a proxy must be deposited with CIBC Mellon Trust Company at its principal office in Calgary not later than 5:00 p.m. (Calgary time) on the second business day immediately preceding the date of the PanCanadian Meeting or any adjournment of the PanCanadian Meeting. Further information relating to the use of proxies is set forth under “Part V — Proxy and Voting Matters”.**

Court Approval

The Arrangement requires approval by the Court. The Court will consider the Arrangement under the provisions of the ABCA. Prior to the mailing of this Joint Circular, AEC obtained the Interim Order providing for the calling and holding of the AEC Meeting and other procedural matters pertaining to the Arrangement. Subject to approval of the AEC Arrangement Resolution by the AEC Securityholders at the AEC Meeting, the hearing in respect of the Final Order is scheduled to take place on April 5, 2002 at 9:00 a.m. (Calgary time) at the Court. All AEC Securityholders and other interested parties have the right to participate in, be represented at and present evidence or arguments at the hearing in respect of the Final Order, subject to serving and filing a Notice of Appearance as set out in the Notice of Petition and satisfying any other applicable requirements. At the hearing of the application in respect of the Final Order, the Court will consider, among other things, the fairness of the Arrangement to the AEC Securityholders.

The Interim Order does not require that dissent rights be granted to AEC Securityholders. In obtaining the Interim Order, representations were made by AEC to the Court regarding the basis for the Plan of Arrangement not providing for dissent rights, including that: (a) dissent rights are not mandated by the ABCA; (b) in the context of a merger of equals transaction, this results in the same treatment for the AEC Shareholders and PanCanadian Shareholders, since the PanCanadian Shareholders do not have dissent rights; (c) AEC Shareholders who object to the Arrangement are able to sell their shares in a highly liquid market; and (d) certain tax advantages of dissenting for certain financial institutions and corporations, that would not be available to other AEC Shareholders, could result in the dissent rights being utilized by certain AEC Shareholders for purposes other than those for which dissent rights are intended, thereby potentially

jeopardizing the completion of the Merger, notwithstanding that it may have been approved by AEC Securityholders and the Court.

The Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit, or may refuse to approve the Arrangement. In the event that any amendment is not acceptable to either of AEC or PanCanadian, acting reasonably, either party may terminate the Combination Agreement and its obligation to consummate the Arrangement, notwithstanding the Final Order, subject to the restrictions on termination set forth in the Combination Agreement.

The Final Order will constitute the basis for an exemption from the registration requirements of the U.S. Securities Act with respect to the securities of PanCanadian to be issued pursuant to the Arrangement. Prior to the hearing in respect of the Final Order, the Court will be informed of this effect of the Final Order.

Regulatory Approvals

In addition to the approval of AEC Securityholders, PanCanadian Shareholders and the Court, it is a condition precedent to implementation of the Merger that certain regulatory approvals be obtained. Accordingly, the following approvals, among others, have been sought:

Competition Act

The Arrangement is a “notifiable transaction” for the purposes of Part IX of the Competition Act. As a result, a pre-merger filing must be submitted to the Commissioner of Competition (the “Commissioner”) and a waiting period must expire or be waived by the Commissioner before the Merger may be completed. On February 13, 2002, AEC and PanCanadian completed the submission of the required short-form pre-merger notification filing to the Commissioner in respect of the Merger. The waiting period will expire on February 27, 2002.

Whether or not a pre-merger filing is required, the Commissioner may, within three years from the date on which the Merger is substantially completed, apply to the Competition Tribunal for the purpose of seeking a remedy of divestiture or otherwise. The Commissioner will launch an inquiry under the Competition Act prior to any such application being made for the purpose of investigating the impact of the Merger on competition.

If the Competition Tribunal finds that a merger prevents or lessens, or is likely to prevent or lessen competition substantially, it may, among other things, order that the merger not proceed or, in the event that the merger has been completed, order its dissolution or the divestiture of some or all of the assets or shares pertaining to the merger.

The Competition Tribunal also may issue an interim order prohibiting the completion of a proposed merger for a period of up to 30 days where: (a) the Commissioner has commenced an inquiry in connection with the proposed merger and believes that more time is required to complete the inquiry; and (b) the Competition Tribunal finds that, in the absence of such an interim order, a party to the proposed merger or any other person is likely to take an action that would substantially impair the ability of the Competition Tribunal to remedy the effect of the proposed merger on competition because that action would be difficult to reverse. The Competition Tribunal may extend the duration of such an interim order where the Competition Tribunal finds that the Commissioner is unable to complete his inquiry within the period specified in the interim order because of circumstances beyond his control.

AEC and PanCanadian have requested that the Commissioner issue an advance ruling certificate under Section 102 of the Competition Act or, alternatively, a “no action” letter in respect of the Merger. If the Commissioner issues an advance ruling certificate, the Commissioner shall not apply to the Competition Tribunal under the merger provisions of the Competition Act in respect of the Merger solely on the information that is the same or substantially the same as the information on the basis of which the advance ruling certificate was issued. Alternatively, the Commissioner may issue a “no action” letter indicating that he is of the view that grounds do not exist to initiate proceedings before the Competition Tribunal under the merger provisions of the Competition Act with respect to the Merger, while preserving during the three years following completion of the Merger his authority to so initiate proceedings should circumstances change.

Hart-Scott-Rodino Act

Under the HSR Act and the regulations promulgated thereunder by the United States Federal Trade Commission (the “Federal Trade Commission”), the Merger may not be consummated until notifications have been filed and certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice (the “Antitrust Division”) and all applicable waiting periods have expired or been terminated. Such notifications were filed on February 15, 2002 and the applicable HSR Act waiting periods are expected to expire or be terminated on or before March 18, 2002.

At any time before or after the consummation of the Merger, and notwithstanding the expiry of the waiting period under the HSR Act, the Federal Trade Commission, the Antitrust Division or other interested persons could take action under the U.S. anti-trust laws to seek to enjoin, modify or dissolve the Merger if it would be likely to substantially lessen competition in any line of commerce in any section of the United States or otherwise result in violation of its anti-trust laws. Each of AEC and PanCanadian believe that the Merger should not violate U.S. anti-trust laws. Nevertheless, there can be no assurance that a challenge of the Merger will not be made or, if such a challenge is made, as to the result thereof.

Other Conditions Precedent

Mutual Conditions

Under the terms of the Combination Agreement, the obligations of AEC and PanCanadian to complete the Merger are subject to the fulfillment or waiver of various other conditions precedent, including:

- (a) the TSE and the NYSE having conditionally approved for listing, subject to compliance with the usual requirements of such exchanges, the PanCanadian Shares issuable pursuant to the terms of the Arrangement;
- (b) both PanCanadian and AEC being satisfied, acting reasonably, that the tax consequences and tax related obligations for PanCanadian as a result of the completion of the Arrangement would not be expected to result in a material adverse effect on PanCanadian after the Arrangement has become effective; and
- (c) the Effective Date occurring on or before July 31, 2002, subject to an extension of up to 30 days from July 31, 2002 in certain circumstances.

Conditions of each of AEC and PanCanadian

The obligation of either AEC or PanCanadian to complete the Merger is also conditional upon, among other things:

- (a) each of AEC and PanCanadian being satisfied that the representations and warranties made by the other party are true and correct as of the Effective Date;
- (b) each of AEC and PanCanadian having complied with its covenants in the Combination Agreement;
- (c) there being no change constituting a material adverse change in either of AEC or PanCanadian; and
- (d) no person or group of persons having acquired beneficial ownership of 20% or more of the AEC Shares or PanCanadian Shares (as determined in accordance with the AEC Shareholder Rights Plan or PanCanadian Shareholder Rights Plan, as applicable).

Timing

It is anticipated that the Merger will become effective after the requisite Court, securityholder and regulatory approvals have been obtained and all other conditions to the Merger have been satisfied or waived. As at the date hereof, it is anticipated that the Merger will be completed on or about April 5, 2002.

Covenants

Under the Combination Agreement, each of AEC and PanCanadian have covenanted, among other things, that until the Effective Date, it will (and will cause each of its subsidiaries to) carry on business in the ordinary course and use its reasonable commercial efforts to preserve intact its business and goodwill; and that it will not take any action or refrain from taking any action which would reasonably be expected to significantly impede the completion of the Arrangement.

Additionally, both PanCanadian and AEC have covenanted that neither they nor their respective subsidiaries shall, directly or indirectly, solicit, initiate, invite or knowingly encourage the initiation of or participate in, any inquiries or proposals regarding an Acquisition Proposal, provided that nothing shall prevent the board of directors of either company from considering, negotiating, approving or recommending to its shareholders an agreement in respect of an unsolicited *bona fide* written Acquisition Proposal: (a) in respect of which any required financing has been demonstrated to the satisfaction of the board of directors of the party subject to the Acquisition Proposal, acting in good faith, to be reasonably likely to be obtained; (b) which is not subject to a due diligence access condition which allows access to the books, records and personnel of a party to the Combination Agreement or any of its subsidiaries or their representatives beyond 5:00 p.m. (Mountain Standard Time) on the third business day after which access is afforded to the person making the Acquisition Proposal (provided, however, the foregoing shall not restrict the ability of such person to continue to review the information provided); (c) in respect of which the board of directors of the party subject to the Acquisition Proposal determines (having consulted outside counsel) that in the exercise of its fiduciary duty it would be necessary for such board of directors to take such action in order to avoid breaching its fiduciary duties; and (d) in respect of which the board of directors of the party subject to the Acquisition Proposal determines in good faith, after consultation with financial advisors, if consummated in accordance with its terms, would result in a transaction more favourable to its shareholders than the Merger. Pursuant to the Combination Agreement, an Acquisition Proposal which satisfies the above conditions constitutes a “Superior Proposal”.

PanCanadian and AEC have agreed in the Combination Agreement not to accept, approve or recommend or enter into any agreement (except for a confidentiality agreement) in respect of an Acquisition Proposal on the basis that it constitutes a Superior Proposal unless: (a) it has provided the other party with a copy of the Acquisition Proposal document which has been determined to be a Superior Proposal; (b) five business days have elapsed from the later of the date that the other party received notice of the determination to accept, approve or recommend an agreement in respect of an Acquisition Proposal, and the date the party received a copy of the Acquisition Proposal document; (c) it has paid to the other party the liquidated damages fee as outlined below; and (d) it concurrently terminates the Combination Agreement pursuant to its terms. During the five business day notice period, the party receiving or subject to the Superior Proposal shall provide a reasonable opportunity to the other party to consider, discuss and offer such adjustments in the terms and conditions of the Combination Agreement as would enable the party receiving the Superior Proposal to proceed with its recommendation to securityholders with respect to the Merger. The board of directors of the party receiving or subject to the Superior Proposal will review in good faith any offer made by the other to amend the terms of the Combination Agreement in order to determine, in its discretion, as part of its exercising its fiduciary duties, whether the proposed amendments would, upon acceptance, result in the Superior Proposal ceasing to be a Superior Proposal. If the board of directors of the party receiving or subject to the Superior Proposal determines that the Superior Proposal would cease to be a Superior Proposal, it will so advise the other party and will accept the offer by the other party to amend the terms of the Combination Agreement. If the board of directors of the party subject to the Superior Proposal continues to believe, in good faith and after consultation with financial advisors and outside counsel, that such Superior Proposal remains a Superior Proposal and therefore rejects the amendments offered by the other party, the party may, subject to the terms of the Combination Agreement, including the payment of the liquidated damages fee as outlined below, accept, approve, recommend or enter into an agreement, understanding or arrangement in respect of such Superior Proposal.

As part of the Combination Agreement, each of AEC and PanCanadian has agreed to pay to the other party liquidated damages in the amount of \$350 million in the event that:

- (a) the board of directors of the party has withdrawn, qualified or changed any of its recommendations or determinations with respect to the Merger in a manner adverse to the other party or shall have resolved to do so prior to the Effective Date;
- (b) a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the party or the shareholders of the party, and (i) such Acquisition Proposal has not expired or been withdrawn at the time of the party's meeting considering the Merger, (ii) the securityholders of the party do not approve the Arrangement, and (iii) such Acquisition Proposal, an amended version thereof, a competing Acquisition Proposal or an Acquisition Proposal solicited in response to the foregoing, is consummated within 12 months of the termination of the Combination Agreement; or
- (c) the party breaches any of its representations, warranties or covenants made in the Combination Agreement, in respect of which notice has been given by the other party and such breach has not been cured within 30 days of such notice and which would individually or in the aggregate have a material adverse effect on the party or materially impede the completion of the Arrangement.

Each of AEC and PanCanadian have agreed to maintain directors' and officers' liability and fiduciary liability insurance in respect of the directors and officers of AEC and PanCanadian for a period of 10 years following completion of the Merger.

Termination of the Merger

The Combination Agreement may be terminated any time prior to the Effective Date:

- (a) by mutual written consent of AEC and PanCanadian;
- (b) by either AEC or PanCanadian if the conditions precedent in its favour or certain mutual conditions precedent have not been satisfied, subject to curative provisions;
- (c) by either AEC or PanCanadian in the event that the liquidated damages fee (described above) becomes payable to it;
- (d) by either AEC or PanCanadian upon the acceptance of an Acquisition Proposal in accordance with the terms of the Combination Agreement (and provided that the payment of the liquidated damages fee has been made to the other party); and
- (e) by either AEC or PanCanadian if the requisite securityholder approval or the Final Order is not obtained.

The Combination Agreement shall terminate without further notice or agreement if the Arrangement is not effective on or prior to July 31, 2002, subject to a 30 day cure period.

Other Business of the PanCanadian Meeting

Annual Business

At the PanCanadian Meeting, the PanCanadian Shareholders will appoint the auditors of PanCanadian and elect eight directors. The nominees for the election of such directors are all existing directors of PanCanadian.

Option Matters

PanCanadian Shareholders will be asked at the PanCanadian Meeting to consider and, if deemed advisable, to pass an ordinary resolution, the text of which is set out as Resolution 4 in Appendix B to this Joint Circular, approving an amendment to the PanCanadian Employee Option Plan to increase the maximum number of PanCanadian Shares reserved for issuance thereunder by 19,500,000 PanCanadian Shares, conditional upon and with effect from the Arrangement becoming effective. To be effective, the resolution must be passed by more than 50% of the votes cast by PanCanadian Shareholders at the PanCanadian Meeting.

As of January 31, 2002, there were 10,298,199 PanCanadian Options issued and outstanding and 2,928,140 PanCanadian Shares were available for the grant of options under the PanCanadian Option Plans. To ensure

there are sufficient EnCana Shares to accommodate future option grants by EnCana, the PanCanadian Board has approved an amendment to the PanCanadian Employee Option Plan that, subject to approval by PanCanadian Shareholders and subject to the Arrangement becoming effective, increases the aggregate number of shares that may be issued pursuant to options granted under the PanCanadian Employee Option Plan by 19,500,000 shares.

Based upon option information as at January 31, 2002, the result of the amendment will be to set the aggregate number of PanCanadian Shares (EnCana Shares after the name change): (a) issuable upon the exercise of PanCanadian Options outstanding under the PanCanadian Option Plans; (b) that may be issued pursuant to future options granted under the PanCanadian Option Plans; and (c) issuable upon the exercise of the EnCana Substitute Options, at approximately 47.1 million PanCanadian (EnCana) Shares. This will represent 9.9% of the approximately 472.9 million PanCanadian (EnCana) Shares that are expected to be outstanding upon the Arrangement becoming effective (based upon the number of AEC Shares and PanCanadian Shares outstanding as at February 15, 2002).

PanCanadian Shareholders will be asked at the PanCanadian Meeting to consider and, if deemed advisable, to pass an ordinary resolution, the text of which is set out as Resolution 5 in Appendix B to this Joint Circular, approving an amendment to the PanCanadian Directors' Option Plan to change the prescribed grants of 8,000 (initial) and 4,000 (annual) options under such plan to 15,000 (initial) and 7,500 (annual) options, respectively, conditional upon and with effect from the Arrangement becoming effective. To be effective, the resolution must be passed by more than 50% of the votes cast by the PanCanadian Shareholders (other than directors participating in such plan) at the PanCanadian Meeting. Such increase in the initial grants will apply only in respect of directors elected or appointed after the Effective Date and not to the PanCanadian directors who are in office at the time the Arrangement becomes effective or to the AEC directors who become EnCana directors upon the Arrangement becoming effective. The increased annual limit will apply to annual grants commencing in 2002 and will include those PanCanadian directors and AEC directors who become directors of EnCana if they have not otherwise received an annual grant of options from either PanCanadian or AEC in 2002.

The amendment is intended to align the prescribed grants under the PanCanadian Directors' Option Plan with those for directors under the AEC Option Plan, as adjusted after applying the Exchange Ratio to the prescribed grants for directors under the AEC Option Plan. The maximum number of PanCanadian Shares reserved for issuance pursuant to options granted under the PanCanadian Directors' Option Plan will remain unchanged at 500,000.

The PanCanadian Board recommends that PanCanadian Shareholders vote in favour of these resolutions.

Post-Merger Stock Option Matters

Upon the completion of the Merger, all AEC Options which are converted into EnCana Substitute Options pursuant to the Arrangement will, by operation of the terms of such options, vest and become immediately exercisable. All share appreciation rights in respect of AEC Shares will be amended with the same effect, to the extent possible, as the immediate vesting and conversion of the AEC Options. On January 27, 2002, the PanCanadian Board authorized the vesting of all outstanding PanCanadian Options and share appreciation rights in respect of PanCanadian Shares upon completion of the Arrangement.

AEC and PanCanadian anticipate that, following the completion of the Merger, the EnCana Board will conduct an assessment of EnCana's outstanding options. This may result in additional options being granted or in the surrender of options in conjunction with the grant of new options, all in accordance with the terms of the EnCana Option Plans and subject to any required stock exchange and shareholder approvals.

AEC Share Certificates

Enclosed with each copy of this Joint Circular sent to AEC Shareholders is a Letter of Transmittal which, when duly completed and returned by AEC Shareholders together with a certificate(s) for AEC Shares, will enable each AEC Shareholder to receive certificates representing the appropriate number of EnCana Shares for each AEC Share to which such holder is entitled pursuant to the Merger.

AEC Shareholders are encouraged to deliver a duly completed Letter of Transmittal together with the relevant share certificate(s) to the Depository as soon as possible. If the Merger proceeds and a Letter of

Transmittal together with the relevant share certificate(s) are delivered to the Depository, then the EnCana Share certificate(s) issuable to a former holder of AEC Shares will, as soon as practicable, be: (a) forwarded to the holder at the address specified in the Letter of Transmittal by first class mail; or (b) made available at the offices of the Depository for pickup by the holder, if requested by the holder in the Letter of Transmittal. **Any use of the mail to transmit a certificate(s) for AEC Shares and a related Letter of Transmittal is at the risk of the AEC Shareholder. If these documents are mailed, it is recommended that registered mail, with return receipt requested, properly insured, be used. If the Merger proceeds, AEC Shareholders must submit such Letter of Transmittal and certificate(s) prior to the tenth anniversary of the Effective Date to avoid losing their entitlement to the EnCana Shares to be issued under the Merger.**

If the Merger proceeds, AEC Shares will cease to be publicly traded. After the Effective Date, AEC Share certificates will only represent an entitlement to receive certificates evidencing EnCana Shares issued under the Merger upon surrender of the relevant certificate(s) and a duly completed Letter of Transmittal to the Depository.

If the Merger does not proceed, the AEC Shares will continue to be publicly traded and all certificates representing AEC Shares transmitted with a related Letter of Transmittal will be returned to AEC Shareholders at the address specified in the Letter of Transmittal by first class mail.

Where a certificate(s) for AEC Shares has been destroyed, lost or mislaid, the registered holder of that certificate(s) should immediately contact CIBC Mellon Trust Company regarding the issuance of a replacement certificate(s) upon the holder satisfying such requirements as may be imposed by AEC in connection with issuance of the replacement certificate(s).

The Plan of Arrangement provides that no dividends or distributions in respect of the EnCana Shares with a record date on or after the Effective Date shall be paid to former AEC Shareholders who have not exchanged their AEC Share certificates for certificates representing EnCana Shares. The payment of such dividends or distributions will be made, without interest, upon the certificates representing AEC Shares being surrendered for exchange.

PanCanadian Share Certificates

PanCanadian Shareholders are not required to exchange their PanCanadian Share certificates. Upon the completion of the Merger and PanCanadian changing its name to EnCana Corporation, certificates representing PanCanadian Shares will represent EnCana Shares. After the Effective Date, PanCanadian Shareholders who wish to have a share certificate which reflects the name change to EnCana may contact CIBC Mellon Trust Company.

Eligible Holder Declarations

For Canadian federal income tax purposes, an AEC Shareholder of AEC Deemed Eligible Shares and an AEC Shareholder who qualifies as an Eligible Holder will be able to defer realizing a taxable capital gain as a result of the exchange of AEC Shares pursuant to the Arrangement. See “Canadian Federal Income Tax Considerations — Residents of Canada — Eligible Holders and AEC Deemed Eligible Holders who are Residents of Canada”. AEC Shares registered in the name of, or beneficially owned by, AEC Shareholders who hold not more than 2,500 AEC Shares are AEC Deemed Eligible Shares, and an Eligible Holder Declaration does not need to be completed in respect of such shares. **In order for other AEC Shareholders to qualify as an Eligible Holder in respect of their AEC Shares, they must complete an Eligible Holder Declaration and send it to the Depository so that it is received by the Depository by 4:00 p.m. (Calgary time) on the date of the AEC Meeting. An AEC Shareholder (other than an AEC Deemed Eligible Holder) that is taxable in Canada and does not provide an Eligible Holder Declaration to the Depository within the required time may realize a taxable capital gain or allowable capital loss as a result of the exchange of such holder’s AEC Shares pursuant to the Arrangement.**

AEC has retained PricewaterhouseCoopers LLP to help AEC Shareholders who require assistance in completing the Eligible Holder Declaration. The telephone number for the toll free “help” line is set out in the Eligible Holder Declaration.

Stock Exchange Listings

The TSE and NYSE have conditionally approved the listing of the PanCanadian Shares to be issued in connection with the Merger, subject to the fulfilment of the requirements of such stock exchanges. Upon completion of the Merger and the name change and subject to the satisfaction of applicable listing requirements, the EnCana Shares will trade on both the TSE and NYSE under the trading symbol “ECA”.

AEC and PanCanadian Dividends

Recognizing that AEC's annual dividend would normally be payable after the expected completion of the Merger, the AEC Board declared a dividend of \$0.45 per AEC Share payable on March 28, 2002 to AEC Shareholders of record at the close of business on March 7, 2002.

The PanCanadian Board has declared a quarterly dividend of \$0.10 per PanCanadian Share payable on March 29, 2002 to PanCanadian Shareholders of record at the close of business on March 15, 2002.

Resale of EnCana Shares

Canada

The EnCana Shares to be issued in exchange for AEC Shares pursuant to the Merger will be issued in reliance on exemptions from prospectus and registration requirements of applicable Canadian securities laws and will generally be "freely tradeable" (other than as a result of any "control block" restrictions which may arise by virtue of the ownership thereof) under applicable securities laws of the provinces and territories of Canada. For the purpose of complying with the securities legislation in the Province of Québec, an application for a prospectus exemption has been filed with the Commission des valeurs mobilières du Québec ("CVMQ") in connection with the issuance of the PanCanadian Shares on the Effective Date. The issuance of the PanCanadian Shares on the Effective Date is subject to the approval of the CVMQ. PanCanadian and AEC anticipate that an order with respect to this application will be granted prior to the AEC Meeting and the PanCanadian Meeting.

United States

The EnCana Shares to be issued in exchange for AEC Shares pursuant to the Merger will not be registered under the U.S. Securities Act, in reliance upon the exemption from registration provided by Section 3(a)(10) thereof. Following the Merger, EnCana Shares held by any holder who was not an "affiliate", for purposes of United States federal securities laws, of AEC or PanCanadian (in each case, before the Merger), and who will not be an affiliate of EnCana after the Merger and at the time of any resale of such EnCana Shares, may be resold without restriction under the U.S. Securities Act. Any resale of EnCana Shares by a holder who was such an affiliate before the Merger or is such an affiliate after the Merger may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom. Any such affiliate (or former affiliate) should obtain the advice of its legal counsel with respect to the application of the U.S. Securities Act to the offer or sale of such EnCana Shares by such person. For the purposes of the U.S. Securities Act, an "affiliate" of AEC, PanCanadian or EnCana is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, AEC, PanCanadian or EnCana, as the case may be.

AEC Shareholders residing elsewhere than in Canada and the U.S. are urged to consult their legal advisors to determine the extent of any applicable resale restrictions under applicable law.

Certain Tax Matters

In connection with its spin-off from CPL on October 1, 2001, PanCanadian entered into an arrangement agreement with the other parties to the spin-off which contains a number of covenants, including an agreement by each of the parties to indemnify and hold harmless each other party against any loss resulting from a breach of covenant. The arrangement agreement includes a covenant that each party will not take any action that could adversely impact certain tax rulings that were received in connection with the spin-off without taking certain steps, including obtaining certain tax rulings or opinions of tax counsel. PanCanadian and AEC have received opinions from PanCanadian's Canadian tax counsel, Felesky Flynn LLP, and from AEC's Canadian tax counsel, McCarthy Tétrault LLP, based in part on certain tax rulings, opinions and other written advice received from Canadian federal fiscal authorities, and an opinion from PanCanadian's U.S. tax counsel, Sidley Austin Brown & Wood, to the effect that the Merger will not cause the CPL arrangement to be taxed in a manner inconsistent

with the tax rulings received in connection with the CPL arrangement. The opinions are subject to qualifications and assumptions which PanCanadian and AEC consider to be reasonable. See the last risk factor in Appendix I.

Risk Factors

AEC Securityholders and PanCanadian Shareholders voting in favour of the Merger and the related proposals will be choosing to combine the businesses of AEC and PanCanadian and, in the case of AEC Securityholders, to invest in EnCana Shares. This combination and, if applicable, investment involves risks. This section and Appendix I describe some, but not all, of the risks associated with the Merger. The order in which these risks are listed does not necessarily indicate their relative importance. Before voting in favour of the Merger and the related proposals, AEC Securityholders and PanCanadian Shareholders should carefully consider these risks and the risks set forth in Appendix I, in addition to the other information contained in this Joint Circular.

EnCana may not realize the anticipated benefits of the Merger.

AEC and PanCanadian entered into the Combination Agreement to strengthen their respective positions in the oil and gas industry and to create the opportunity for potential cost savings, among other things. Achieving the benefits of the Merger will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as EnCana's ability to realize the anticipated growth opportunities and synergies from combining the businesses of AEC and PanCanadian. Furthermore, the integration of AEC and PanCanadian will be complex and time-consuming, and the management of each of AEC and PanCanadian will have to dedicate substantial effort to it. These efforts could divert management's focus and resources from other strategic opportunities and from operational matters during the integration process.

Prior to the completion of the Merger, AEC and PanCanadian will continue to operate independently, although integration efforts will be proceeding pending shareholder approvals of the Merger. The integration process may result in the loss of key employees, the disruption of each company's on-going businesses or inconsistencies in standards, controls, procedures and policies that may adversely affect EnCana's ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the Merger.

Estimates of cost savings and cost saving components are inherently uncertain, and there can be no assurance as to the accuracy of these estimates.

The cost savings estimates are based on a number of assumptions, including that EnCana will be able to implement necessary cost saving programs such as personnel reductions, consolidate geographically proximate facilities and eliminate duplicative activities and services within a defined period. In addition, the cost savings estimates assume that EnCana will be able to realize merger efficiencies resulting from the increased size of the combined company.

The trading price of the EnCana Shares may be less than the trading price of AEC Shares (after application of the Exchange Ratio) or the trading price of the PanCanadian Shares as of the date of the Combination Agreement or as of the dates of the AEC Meeting and PanCanadian Meeting.

Upon completion of the Merger, all of the AEC Shares will be exchanged for EnCana Shares. The ratio at which the AEC Shares will be exchanged is fixed, and there will be no adjustment for changes in the market price of either AEC Shares or PanCanadian Shares. Neither AEC nor PanCanadian is permitted to terminate the Combination Agreement or resolicit the vote of its shareholders solely because of changes in the market price of either company's common shares.

There will be a significant amount of time between the date of the Combination Agreement and the date of the AEC Meeting and PanCanadian Meeting and there may be a significant amount of time between the dates of such meetings and the date when the Merger is completed. As a result, the relative or absolute prices of AEC Shares and PanCanadian Shares may vary significantly between the dates of the Combination Agreement, this Joint Circular, the AEC Meeting and PanCanadian Meeting and the completion of the Merger. These variations may be caused by, among other factors, changes in the businesses, operations, results and prospects of

either AEC or PanCanadian, market expectations of the likelihood that the Merger will be completed and the timing of its completion, the prospects for post-Merger operations, the effect of any conditions or restrictions imposed on or proposed with respect to the combined company by regulators, and general market and economic conditions.

In addition, it is impossible to predict accurately the market price of the EnCana Shares after the completion of the Merger. Accordingly, the prices of AEC Shares and PanCanadian Shares on the dates of the meetings may not be indicative of their prices immediately prior to the completion of the Merger or the price of EnCana Shares after the Merger is completed.

Canadian Federal Income Tax Considerations

In the opinion of McCarthy Tétrault LLP, Canadian tax counsel to AEC, and Felesky Flynn LLP, Canadian tax counsel to PanCanadian, the following is a fair and adequate summary of the principal Canadian federal income tax considerations under the Tax Act in respect of the Arrangement generally applicable to: (a) AEC Shareholders who, for purposes of the Tax Act, at all relevant times hold their AEC Shares as capital property and deal at arm's length with PanCanadian and ArrangeCo; and (b) AEC Optionholders. AEC Shares will generally be considered to be capital property to an AEC Shareholder unless they are held in the course of carrying on a business or in connection with an adventure in the nature of trade. Certain AEC Shareholders who are resident in Canada and whose AEC Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their AEC Shares treated as capital property.

This summary is not applicable to AEC Shareholders who do not hold their AEC Shares as capital property, AEC Shareholders that are "financial institutions" or "specified financial institutions" (as defined in the Tax Act), AEC Shareholders an interest in which would be a "tax shelter investment" for purposes of the Tax Act or AEC Shareholders who are exempt from tax under Part I of the Tax Act. Such holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder, and counsel's understanding of the current published administrative practices of the Canada Customs and Revenue Agency ("CCRA") to the date hereof. This summary assumes that all publicly announced proposals to amend the Tax Act and Regulations announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof will be enacted as proposed, although there is no assurance that such proposed amendments will be enacted in the form proposed or at all. This summary does not take into account or anticipate any other changes in law, whether by judicial, governmental or legislative action or decision, nor does it take into account provincial or territorial laws of Canada or the laws of any foreign jurisdiction which may be materially different from the Canadian federal income tax considerations described herein.

Counsel have been informed that AEC and PanCanadian have determined that the rights under the AEC Shareholder Rights Plan and the rights under the PanCanadian Shareholder Rights Plan that will be issued pursuant to the Arrangement have negligible monetary value. Assuming such rights have no value, the termination of rights under the AEC Shareholder Rights Plan and the issuance of rights under the PanCanadian Shareholder Rights Plan will not result in any income or proceeds of disposition, and the rights so issued will not have any adjusted cost base to the holder. This summary is based upon this assumption.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular AEC Securityholder. AEC Securityholders should consult their own tax advisers as to the tax consequences to them of the Arrangement in their particular circumstances.

Residents of Canada

Eligible Holders and AEC Deemed Eligible Holders who are Residents of Canada

This part of the summary is applicable to an AEC Shareholder who is either an AEC Deemed Eligible Holder or an Eligible Holder who is a resident of Canada or is deemed to be a resident of Canada for the

purposes of the Tax Act (a “Participating Shareholder”). An AEC Shareholder who holds an aggregate of not more than 2,500 AEC Shares and who is not exempt from tax under Part I of the Tax Act (except certain trusts) generally will be considered an “AEC Deemed Eligible Holder” and will not be required to deliver an Eligible Holder Declaration. In general terms, an Eligible Holder is a resident of Canada for purposes of the Tax Act who is not exempt from tax under the Tax Act, and who delivers a duly completed and executed “Eligible Holder Declaration” to the Depository by 4:00 p.m. (Calgary time) on the date of the AEC Meeting.

Except as described below, a Participating Shareholder will not realize a capital gain or capital loss as a result of the transfer of AEC Shares in exchange for EnCana Shares. The adjusted cost base of such Participating Shareholder’s AEC Shares will become the cost of the EnCana Shares that are received by the Participating Shareholder on the exchange. The cost of such EnCana Shares generally must be averaged with the cost of any other EnCana Shares held by such Participating Shareholder.

A Participating Shareholder may choose to file a tax return recognizing a capital gain or capital loss on the transfer of AEC Shares in exchange for EnCana Shares in such holder’s taxation year in which the transfer occurs. In such event, the amount of the capital gain (or capital loss) will equal the amount by which the proceeds of disposition of such Participating Shareholder, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the AEC Shares transferred by such Participating Shareholder on the exchange. The Participating Shareholder’s proceeds of disposition will equal the fair market value of the EnCana Shares received on the exchange plus any cash received in lieu of a fraction of an EnCana Share, and the Participating Shareholder will acquire the EnCana Shares at a cost equal to the fair market value of the AEC Shares transferred by the Participating Shareholder on the exchange less any cash received in lieu of a fraction of an EnCana Share. The cost of such EnCana Shares generally must be averaged with the cost of any other EnCana Shares held by such Participating Shareholder.

Under the Tax Act, one-half of any capital gain realized by a Participating Shareholder must be included in computing such holder’s income as a taxable capital gain. One-half of any capital loss may be deducted as an allowable capital loss only against taxable capital gains in computing income in accordance with the provisions of the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any three preceding taxation years or carried forward and deducted in any of the subsequent taxation year against net taxable capital gains realized in such years, to the extent and in the circumstances provided in the Tax Act. The amount of any such capital loss otherwise determined will, if the Participating Shareholder is a corporation, be reduced by the amount of dividends or deemed dividends received on the AEC Shares to the extent and under circumstances prescribed by the Tax Act. Similar rules apply to a partnership or a trust of which a corporation, trust or partnership is a member or beneficiary. Taxable capital gains of a Canadian-controlled private corporation (as defined in the Tax Act) may be subject to an additional refundable tax at a rate of 6⅔%. Eighty percent of any capital gains realized by an AEC Shareholder who is an individual will be included in computing such individual’s liability for alternative minimum tax.

A Participating Shareholder who becomes entitled to cash in lieu of a fractional EnCana Share will recognize a capital gain or capital loss in respect of the disposition of such fractional share, except that a Participating Shareholder who has not chosen to recognize a capital gain or capital loss in respect of the transfer of AEC Shares may instead choose to ignore the capital gain or capital loss arising in respect of the disposition of a fractional share and reduce the adjusted cost base of the EnCana Shares received on the exchange by the amount of such cash as noted.

Canadian Resident AEC Shareholders Other Than Eligible Holders and AEC Deemed Eligible Holders

This part of the summary is applicable to an AEC Shareholder who is not a Participating Shareholder but who is a resident of or is deemed to be a resident of Canada for purposes of the Tax Act. Such AEC Shareholder will realize a capital gain or capital loss on the transfer of AEC Shares in exchange for EnCana Shares in the taxation year in which the transfer occurs. The amount of the capital gain (or capital loss) will equal the amount by which the proceeds of disposition of such AEC Shareholder, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the AEC Shares transferred by such AEC Shareholder on the exchange. Such AEC Shareholder’s proceeds of disposition will equal the fair market value of the EnCana

Shares received on the exchange and any cash received in lieu of a fraction of an EnCana Share, and such AEC Shareholder will acquire the EnCana Shares at a cost equal to the fair market value of the AEC Shares transferred by such AEC Shareholder on the exchange less any cash received in lieu of a fraction of an EnCana Share. The cost of such EnCana Shares generally must be averaged with the cost of any other EnCana Shares held by such person. The treatment of capital gains and losses is discussed above under “Eligible Holders and AEC Deemed Eligible Holders who are Residents of Canada”.

Non-Resident AEC Shareholders

This portion of the summary is applicable to an AEC Shareholder who is neither a resident of nor deemed to be a resident of Canada for purposes of the Tax Act. Such a holder whose AEC Shares are not and are not deemed to be “taxable Canadian property” for purposes of the Tax Act will not be subject to tax under the Tax Act on either the transfer of such holder’s AEC Shares in exchange for EnCana Shares or in respect of cash received in lieu of a fraction of an EnCana Share. Such holder’s AEC Shares generally will not be taxable Canadian property provided: (a) the AEC Shareholder does not use or hold, and is not deemed to use or hold, such shares in connection with carrying on a business in Canada; (b) such shares are not “designated insurance property” of the AEC Shareholder within the meaning of the Tax Act; (c) the AEC Shareholder has not, either alone or in combination with persons with whom the AEC Shareholder does not deal at arm’s length, owned 25% or more of the issued shares of any class or series of the capital stock of AEC at any time within 60 months preceding the Effective Date; and (d) the AEC Shareholder has not elected under the Tax Act to treat such shares as taxable Canadian property upon ceasing to be a resident of Canada.

AEC Optionholders

An AEC Optionholder will not recognize any income or gain on the disposition of such holder’s AEC Options pursuant to the Arrangement provided that the net value, if any, of the EnCana Substitute Options received by such holder pursuant to the Arrangement does not exceed the net value, if any, of the AEC Options disposed of by such holder pursuant to the Arrangement.

United States Federal Income Tax Considerations

General

The following discussion summarizes the material United States federal income tax consequences that are generally applicable to U.S. Holders (as defined below) pursuant to the Combination Agreement and the Merger. As used herein, a “U.S. Holder” means, as the context requires, a holder of AEC Shares or EnCana Shares that holds such shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and for U.S. federal income tax purposes is either: (a) a citizen or resident of the United States; (b) a corporation or other entity taxable as a corporation organized under the laws of the United States or any political subdivision thereof (including the states of the United States and the District of Columbia); (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; (d) a trust if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust; or (e) any other person that is subject to U.S. federal income tax on its worldwide income. As used herein, a “Non-U.S. Holder” means any holder of AEC Shares or EnCana Shares who is not a U.S. Holder.

This discussion does not address all aspects of taxation that may be relevant to particular U.S. Holders in light of their personal investment or tax circumstances or to persons that are subject to special tax rules, such as banks, insurance companies, tax-exempt entities, financial institutions, broker-dealers, persons holding AEC Shares or EnCana Shares as part of a hedging or conversion transaction or as part of a “straddle,” U.S. expatriates, persons subject to the alternative minimum tax, U.S. Holders whose functional currency is not the U.S. dollar, Non-U.S. Holders, and U.S. Holders that own or have owned, actually or constructively, 10% or more of the AEC Shares or that will own, actually or constructively, 5% or more of the total voting power or the total value of EnCana Shares after the Merger. This discussion may not be applicable to holders who acquired AEC Shares pursuant to the exercise of options or warrants or otherwise as compensation for services.

Furthermore, this discussion does not give a detailed discussion of any state, local, or foreign tax considerations. This summary also assumes that neither AEC nor PanCanadian is a “controlled foreign corporation” or “foreign personal holding company” for U.S. federal income tax purposes.

This discussion is based on the Code, applicable U.S. Treasury regulations, judicial authority, and administrative rulings and practice, all as of the date of this Joint Circular, as well as certain representations made by AEC or PanCanadian. Future legislative, judicial, or administrative changes or interpretations, which may or may not be retroactive, or the failure of any such factual representation to be true, correct and complete in all material respects, may adversely affect the accuracy of the statements and conclusions described in this document. No ruling has been sought from the Internal Revenue Service as to the U.S. federal income tax consequences of the Merger, and the opinions of counsel set forth herein will not be binding upon the Internal Revenue Service or any court.

U.S. Holders should consult their own tax advisors regarding the specific U.S. federal income tax consequences of the Merger relevant to their particular circumstances, as well as any applicable state, local, foreign, or other tax consequences of the Merger relevant to such U.S. Holders.

Material Tax Consequences of the Merger

In the opinion of Paul, Weiss, Rifkind, Wharton & Garrison, U.S. counsel to AEC, and Sidley Austin Brown & Wood, U.S. counsel to PanCanadian, based on certain representations made by AEC and PanCanadian, the Merger should be treated as a reorganization described in Section 368(a) of the Code. Assuming the Merger is so treated, and subject to the discussion of passive foreign investment companies below, the material U.S. federal income tax consequences of the Merger will be as follows:

- (a) no gain or loss will be recognized by any U.S. Holder upon the receipt of EnCana Shares in exchange for the U.S. Holder’s AEC Shares, except with respect to cash received instead of a fractional EnCana Share;
- (b) the aggregate tax basis of the EnCana Shares that a U.S. Holder receives in exchange for AEC Shares in the Merger, including fractional shares for which cash is ultimately received, will be the same as the aggregate tax basis of that U.S. Holder’s AEC Shares exchanged;
- (c) the holding period for the EnCana Shares that a U.S. Holder receives in the Merger will include the holding period of the AEC Shares exchanged; and
- (d) if a U.S. Holder receives cash instead of a fractional EnCana Share, the U.S. Holder will recognize gain or loss equal to the difference, if any, between the U.S. Holder’s tax basis in the fractional share (as described in (b) above) and the amount of cash received. Such gain or loss will constitute long-term capital gain or loss if the U.S. Holder’s holding period is more than one year as of the Effective Date, and otherwise will be short-term capital gain or loss.

Passive Foreign Investment Company

Special rules would be applicable to U.S. Holders upon exchange of their AEC Shares in the Merger if AEC were treated as a so-called “passive foreign investment company” (“PFIC”). A PFIC is any non-U.S. corporation if at least 75% of its gross income for the taxable year is passive income or if at least 50% by value of the assets it holds during the taxable year produce or are held for the production of passive income. For this purpose, “passive income” includes the excess of gains over losses from certain commodities transactions, including certain transactions involving oil and gas. Gains from commodities transactions, however, are generally excluded from the definition of passive income if “substantially all” of a merchant’s, producer’s, or handler’s business is as an active merchant, producer or handler of such commodities.

AEC does not believe, on the advice of its counsel, that the PFIC provisions were intended to apply to entities such as AEC. However, the application of these rules to AEC is not entirely clear. In particular, one possible interpretation of the PFIC rules may expose a U.S. Holder who has held AEC Shares since 1995 or earlier to adverse taxation under the PFIC rules on a disposition of such shares pursuant to the Merger.

If AEC were treated as a PFIC for any taxable year after 1986 and a U.S. Holder held AEC Shares in any taxable year in which AEC were so treated, the U.S. Holder could be subject to two adverse consequences upon the disposition of AEC Shares pursuant to the Merger. First, unless EnCana were also treated as a PFIC, gain but not loss would have to be recognized by the U.S. Holder upon disposition of such AEC Shares (regardless of nonrecognition rules that might otherwise apply). Second, any such gain recognized by the U.S. Holder generally would be subject to a special adverse tax regime whereby: (a) such gain would be allocated ratably to each day that the U.S. Holder held such AEC Shares; (b) the U.S. Holder would be required to pay tax, on the amounts allocated to each prior taxable year of AEC after 1986 during which the U.S. Holder held such AEC Shares and AEC was a PFIC, at the highest rate in effect for that year on ordinary income; and (c) the tax thus deemed owed in prior years would be subject to an interest charge at the rate applicable to deficiencies for income tax. Similar rules apply to a distribution from a PFIC that meets the definition of an “excess distribution” within the meaning of Section 1291 of the Code.

The rules regarding PFIC classification are complex. U.S. Holders of AEC Shares are urged to consult their tax advisors regarding the potential application of the rules described above.

Reporting Requirements

U.S. Holders will be required to attach a statement to their tax returns for the taxable year in which the Merger is completed that contains a statement of the pertinent facts. U.S. Holders of record of AEC Shares as of the Effective Date will receive a statement conveying the information necessary to comply with this requirement.

Ownership of EnCana Shares

Dividends

Subject to the possible application of the rules governing PFICs, discussed below, the gross amount of any distribution paid by EnCana to a U.S. Holder of EnCana Shares generally will be subject to U.S. federal income tax as foreign-source dividend income to the extent paid out of EnCana’s current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The amount of any distribution of property other than cash will be the fair market value of such property on the date of the distribution. Dividends received by a U.S. Holder will not be eligible for the dividends-received deduction allowed to corporations. To the extent that an amount received by a U.S. Holder exceeds such holder’s allocable share of EnCana’s current and accumulated earnings and profits, such excess will be applied first to reduce such U.S. Holder’s tax basis in his EnCana Shares, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the EnCana Shares. Then, to the extent such distribution exceeds such U.S. Holder’s tax basis in EnCana Shares, it will be treated as capital gain.

Any amounts recognized as dividends will generally constitute foreign-source income and passive income for U.S. foreign tax credit limitation purposes.

Any Canadian tax withheld with respect to distributions made on the EnCana Shares may, subject to certain limitations, be claimed as a foreign tax credit against a U.S. Holder’s U.S. federal income tax liability or may be claimed as a deduction from the U.S. Holder’s federal adjusted gross income provided that the U.S. Holder elects to deduct all foreign taxes paid in the same taxable year. The limitation of foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing the foreign tax credit are complex and U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Distributions to U.S. Holders of EnCana Shares would be subject to special adverse tax rules if EnCana were treated as a PFIC (see “Passive Foreign Investment Company,” above). PanCanadian and AEC do not anticipate that EnCana will be treated as a PFIC, although there can be no absolute assurance regarding such treatment. In the event that EnCana were to be treated as a PFIC, a U.S. Holder of EnCana Shares treated as “marketable stock” could avoid the imposition of the adverse PFIC tax regime described above by making a mark-to-market election with respect to the EnCana Shares in the first year of such U.S. Holder’s holding period.

in which EnCana were treated as a PFIC. Generally, pursuant to this election, an electing U.S. Holder would include in ordinary income, for each taxable year during which the EnCana Shares were held, an amount equal to the increase in value of the stock. The Code does not expressly address whether or not the election would continue to apply in a year in which a corporation ceases to meet the definition of a PFIC. If in the future EnCana believes that it is a PFIC for a particular taxable year, it intends to so notify all U.S. Holders of EnCana Shares.

Sale, Exchange or Other Taxable Disposition of EnCana Shares

Subject to the possible application of the PFIC rules, discussed above, a U.S. Holder will generally recognize gain or loss upon the sale, exchange or other taxable disposition of EnCana Shares equal to the difference between: (a) the amount realized upon the sale, exchange or other taxable disposition; and (b) the U.S. Holder's adjusted tax basis in the EnCana Shares. A U.S. Holder's adjusted tax basis in the EnCana Shares will generally be the cost to the holder of such shares and, in the case of a former holder of AEC Shares, will be determined as discussed under "Material Tax Consequences of the Merger", above. Generally, such gain or loss will be long-term capital gain or loss if, on the date of the sale, exchange, or other taxable disposition, the holding period of the U.S. Holder is more than one year and otherwise will be short-term capital gain or loss. If EnCana were treated as a PFIC and the U.S. Holder did not make the mark-to-market election discussed above, however, any gain recognized would be taxed under the adverse tax regime discussed above (see "Passive Foreign Investment Company"). Gain or loss, if any, recognized by a U.S. Holder upon a sale, exchange, or other taxable disposition of EnCana Shares generally will be treated as having a U.S. source for U.S. foreign tax credit limitation purposes.

Foreign Exchange Gain or Loss

Payments of dividends on EnCana Shares and payments of cash in lieu of fractional EnCana Shares which are made in Canadian dollars must be translated to U.S. dollars in order to calculate the U.S. Holder's federal income tax liability. Generally, an amount paid in Canadian dollars will be translated to a U.S. dollar amount by reference to the spot exchange rate in effect on the date such amount is paid, regardless of whether the payment is in fact converted into U.S. dollars. If the Canadian dollars are converted into U.S. dollars on the date of the payment, the U.S. Holder (although subject to tax on the U.S. dollar value of the payment) should not be required to recognize any foreign currency gain or loss with respect to the receipt of Canadian dollars. If, instead, the Canadian dollars are converted at a later date, any currency gains or losses resulting from the conversion of the Canadian dollars will be treated as U.S.-source ordinary income or loss.

Information Reporting and U.S. Federal Income Tax Backup Withholding

Holders of EnCana Shares may be subject to backup withholding on cash payments received instead of a fractional EnCana Share and on dividends paid on EnCana Shares. Backup withholding will not apply, however, to a shareholder who:

- furnishes a correct taxpayer identification number and certifies, under penalties of perjury, that he or she is not subject to backup withholding on a Form W-9, and otherwise complies with applicable requirements of the backup withholding rules;
- is a corporation or otherwise exempt from backup withholding and, when required, demonstrates this fact; or
- provides a certification of foreign status on Form W-8BEN or successor form, if applicable.

A shareholder who fails to provide the correct taxpayer identification number on Form W-9 may be subject to penalties imposed by the Internal Revenue Service. A Form W-9 for U.S. Holders is contained within the Letter of Transmittal. Backup withholding is not an additional tax, and any amount withheld under these rules will be credited against the U.S. Holder's U.S. federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

Eligibility for Investment

In the opinion of Macleod Dixon LLP, Canadian counsel to AEC, and Bennett Jones LLP, Canadian counsel to PanCanadian, subject to compliance with the prudent investment standards and general investment provisions of the following statutes (and, where applicable, the regulations thereunder) and, in certain cases, subject to the satisfaction of additional requirements relating to investment or lending policies, procedures or goals which comply with such statutes and, in certain circumstances, the filing of such policies, procedures and goals pursuant to such statutes, EnCana Shares to be issued on the Effective Date are not, at the date hereof, precluded as investments for purchasers to which the following statutes and regulations made thereunder apply:

Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Trust and Loan Companies Act (Canada)
Loan and Trust Corporations Act (Ontario)
Pension Benefits Act (Ontario)
Trustee Act (Ontario)

an Act respecting insurance (Québec) in respect of an investment by an insurer, as defined in such Act (other than a guarantee fund corporation)

an Act respecting trust companies and savings companies (Québec) in respect of a savings company licensed thereunder investing its own funds and a trust company licensed thereunder investing its own funds and deposits it receives

Supplemental Pension Plans Act (Québec)
Alberta Heritage Savings Trust Fund Act (Alberta)
Employment Pension Plans Act (Alberta)
Insurance Act (Alberta)
Loan and Trust Corporations Act (Alberta)
Trustee Act (Alberta)
Financial Institutions Act (British Columbia)
Pension Benefits Standards Act (British Columbia)
The Insurance Act (Manitoba)
The Pension Benefits Act (Manitoba)
The Trustee Act (Manitoba)
The Pension Benefits Act, 1992 (Saskatchewan)
Pension Benefits Act (New Brunswick)

In the opinion of McCarthy Tétrault LLP, Canadian tax counsel to AEC, and Felesky Flynn LLP, Canadian tax counsel to PanCanadian, the EnCana Shares to be issued on the Effective Date will also be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (provided that the EnCana Shares are listed on a prescribed stock exchange, which currently includes the TSE) and will not, on the Effective Date, be foreign property, as that term is defined in the Tax Act.

Dissent Rights

Neither the AEC Shareholders nor the PanCanadian Shareholders have any rights to dissent and be paid fair value for their shares. The Interim Order does not require that AEC Securityholders be given dissent rights and neither the AEC Arrangement Resolution nor the PanCanadian Combination Resolutions give rise to any statutory dissent rights. See “Part I — The Merger — Key Approvals — Court Approval”.

Costs of the Merger

The combined third party transaction fees, costs and expenses of AEC and PanCanadian in connection with the Merger, including financial advisors’ fees, strategic advisors’ fees, regulatory filing fees, legal and accounting fees, printing and mailing costs and restructuring charges relating to items such as employee termination expenses, are estimated to be approximately \$150 million. AEC and PanCanadian have agreed that, except in the event of termination of the Combination Agreement, all such transaction fees, costs and expenses shall be paid by the party incurring such expenses. In the event that the Combination Agreement is terminated, AEC and PanCanadian have agreed to share equally the fees for financial advisors, the fees reasonably incurred for strategic advisors, the printing and mailing expenses in respect of this Joint Circular and filing fees in respect of the Competition Act and the HSR Act.

PART II — ENCANA CORPORATION

Board of Directors

The Combination Agreement contemplates that the EnCana Board will consist of 16 members, with eight being existing directors of AEC and eight being existing directors of PanCanadian. Upon the Arrangement becoming effective and subject to election by the PanCanadian Shareholders at the PanCanadian Meeting, the directors of EnCana will be the individuals referred to below, who shall hold office until the first meeting of shareholders of EnCana or until their respective successors have been duly elected or appointed:

Michael N. Chernoff	Dale A. Lucas
Patrick D. Daniel	Ken F. McCready
Ian W. Delaney	Gwyn Morgan
William R. Fatt	Valerie A.A. Nielsen
Michael A. Grandin	David P. O'Brien
Barry W. Harrison	Dennis A. Sharp
Richard F. Haskayne, O.C.	T. Don Stacy
John C. Lamacraft	James M. Stanford

The following is background information on the proposed directors of EnCana and sets out the number of voting shares of AEC and PanCanadian beneficially owned, directly or indirectly, or over which control or direction is exercised, by each person:

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director of AEC or PanCanadian Since</u>	<u>AEC Shares</u>	<u>PanCanadian Shares</u>
Michael N. Chernoff Vancouver, British Columbia	Corporate Director. Prior to his retirement in 1999, Mr. Chernoff was Chairman and past President of Pacalta Resources Ltd. (oil and gas exploration and production)	1999 (AEC)	519,546	—
Patrick D. Daniel Calgary, Alberta	President & Chief Executive Officer, Enbridge Inc. (energy, transportation and services). Prior thereto, President & Chief Operating Officer of Enbridge Inc. from 1999 and Executive Vice President & Chief Operating Officer of Enbridge Inc. from 1998. Prior thereto, President and Chief Operating Officer of Interprovincial Pipeline Company (pipelines and energy services) from May 1994 to January 2001	2001 (PanCanadian)	—	135
Ian W. Delaney Toronto, Ontario	Chairman of the Board, Sherritt International Corporation (nickel/cobalt mining, oil and gas production, electricity generation)	1999 (AEC)	10,000	7,500

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director of AEC or PanCanadian Since</u>	<u>AEC Shares</u>	<u>PanCanadian Shares</u>
William R. Fatt Toronto, Ontario	Chief Executive Officer, Fairmount Hotels & Resorts Inc. (hotels). Prior thereto, Chairman and Chief Executive Officer of Canadian Pacific Hotels & Resorts Inc. (hotels) from December 1997 to October 2001 and Executive Vice President and Chief Financial Officer of Canadian Pacific Limited (energy, transportation, hotels) from January 1994 to December 1997	1995 (PanCanadian)	–	8,269
Michael A. Grandin Calgary, Alberta	President, PanCanadian. Prior thereto, Executive Vice President and Chief Financial Officer of Canadian Pacific Limited (energy, transportation, hotels) from December 1997 to October 2001, Vice Chairman and Director of Midland Walwyn Capital Inc. (securities brokerage and investment banking) from October 1996 to November 1997 and a director of Enerflex Systems Ltd. since August 1998	1998 (PanCanadian)	–	3,719
Barry W. Harrison Calgary, Alberta	Corporate Director and independent businessman. Prior thereto, President of Black Sea Energy Ltd. (oil and natural gas exploration and production) from February 1998 to August 1998, President of Quest Oil & Gas Inc. (oil and natural gas exploration and production) from October 1996 to April 1997 and a Managing Director of Goepel Shields & Partners Inc. (securities brokerage and investment banking) from April 1996 to October 1996	1996 (PanCanadian)	–	3,207

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director of AEC or PanCanadian Since</u>	<u>AEC Shares</u>	<u>PanCanadian Shares</u>
Richard F. Haskayne, O.C. . . . Calgary, Alberta	Chairman of the Board, TransCanada PipeLines Limited (pipelines and energy services) and Chairman, Fording Inc. (coal export, wollastonite producer). Prior thereto, Chairman of NOVA Corporation from April 1992 until its merger with TransCanada PipeLines Limited in July 1998	1992 (AEC)	10,000	15,260
John C. Lamacraft Toronto, Ontario	Chairman of the Board, Aber Diamond Corporation (diamond marketing company). Past President and Chief Executive Officer and a director of Conwest Exploration Company Limited (oil and gas exploration and production)	1996 (AEC)	15,000	—
Dale A. Lucas Calgary, Alberta	President, D.A. Lucas Enterprises Inc. (international energy project consulting)	1997 (AEC)	1,000	—
Ken F. McCready Calgary, Alberta	President, K.F. McCready & Associates Ltd. (a sustainable energy development consulting company)	1992 (PanCanadian)	—	4,000
Gwyn Morgan Calgary, Alberta	President and Chief Executive Officer of AEC	1993 (AEC)	95,835	—
Valerie A.A. Nielsen Calgary, Alberta	Corporate Director. Past Chairman and currently a member of an advisory group on GATT, NAFTA and international trade matters pertaining to energy, chemicals and plastics	1990 (AEC)	639	—
David P. O'Brien Calgary, Alberta	Chairman and Chief Executive Officer of PanCanadian. Prior thereto, Chairman, President & Chief Executive Officer, Canadian Pacific Limited (energy, transportation, hotels) from May 1996 to October 2001	1990 (PanCanadian)	1,795	11,872

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director of AEC or PanCanadian Since</u>	<u>AEC Shares</u>	<u>PanCanadian Shares</u>
Dennis A. Sharp Calgary, Alberta	Chairman & Chief Executive Officer, UTS Energy Corporation (oil and gas company). Prior thereto, Chairman and Chief Executive Officer of CS Resource Management Inc. (investment management primarily in oil and gas exploration) from October 1982 to 1997. Chairman and Chief Executive Officer of CS Resources Limited (oil and natural gas exploration and production) from January 1984 to July 1997	1998 (PanCanadian)	–	17,800
T. Don Stacy Houston, Texas	Corporate Director. Prior to his retirement in 1997, Chairman and President of Amoco Eurasia Petroleum Company Ltd.	1998 (AEC)	1,000	–
James M. Stanford Calgary, Alberta	President, Stanford Resource Management Inc. (investment management). Prior thereto, President and Chief Executive Officer of Petro-Canada (integrated oil and gas company) from January 1993 to January 2000	2001 (PanCanadian)	–	3,130

Management

AEC and PanCanadian have agreed that David P. O'Brien, the Chairman and Chief Executive Officer of PanCanadian, will be the Chairman of EnCana and Gwyn Morgan, the President and Chief Executive Officer of AEC, will be the President and Chief Executive Officer of EnCana.

Subject to approval by the EnCana Board, it is expected that the senior management of EnCana will be comprised of the transition team leaders for the proposed operating divisions and corporate groups described below, being: Randall K. Eresman (Onshore North American Upstream Division); Gerald J. Macey (Offshore, International and New Ventures Exploration Division); David J. Boone (Offshore and International Development and Production Division); R.W. (Bill) Oliver (Midstream and Marketing Division); John D. Watson (Corporate Finance); Drude Rimell (Corporate Services); Gerard J. Protti (Corporate Relations); and Brian C. Ferguson (Corporate Development).

EnCana's Organizational Structure

EnCana will be organized to combine the competitiveness, entrepreneurship, agility and work environment of smaller operating divisions and business units with the breadth of knowledge, financial strength and resiliency of a larger company. EnCana plans to create fully accountable, high performance "best-of-class" business units within four key operating divisions. The following is a summary of EnCana's proposed operating divisions:

Onshore North American Upstream Division

This division will consist of several new business units comprising AEC's and PanCanadian's upstream onshore activities in Western Canada, the U.S. and Mexico. In addition to the conventional business units, this

division will have groups focused on coal bed methane development and thermal recovery. AEC's interest in Syncrude and PanCanadian's interest in Petrovera Resources will also be part of this division.

Offshore, International and New Ventures Exploration Division

This division will be responsible for exploration outside of the Western Canada Sedimentary Basin, onshore U.S., Mexico and Ecuador. The three primary regions of exploration focus will be Canada's East Coast, the North Sea and the Gulf of Mexico. New ventures exploration projects currently include the Mackenzie Delta, Alaska, Azerbaijan, Australia, Brazil, the Middle East and, potentially, offshore West Coast Canada. This division will include an offshore drilling team and an applied geoscience technology centre, as well as a country screening and project evaluation team.

Offshore and International Development and Production Division

This division will include the Ecuador business unit along with responsibility for the very large and capital intensive development projects which will lead to operating business units offshore the Canadian East Coast, the North Sea and the Gulf of Mexico. This division is expected to develop world-class offshore development and production core competencies, plus a project management team that will be available to all divisions throughout EnCana. This division will work closely with the Offshore, International and New Ventures Exploration Division as it takes over responsibility for the exploration, development and operation of new discoveries made elsewhere in the world.

Midstream and Marketing Division

This division will include the following business units: EnCana Gas Storage, EnCana Pipelines and Processing (which includes power generation and gas liquids straddle plants) and EnCana Marketing/EnCana Energy Services.

Corporate Groups

Each of the operating divisions will be supported by four corporate groups:

- Corporate Finance (treasurer's, comptroller's, tax, internal audit and risk management);
- Corporate Services (human resources, information technology and office administration services);
- Corporate Relations (government and regulatory affairs, health and safety, environment, corporate security and emergency response); and
- Corporate Development (investor relations, business development, legal and corporate secretarial functions).

Principal Shareholders

To the knowledge of the directors and senior management of AEC and PanCanadian, there are no shareholders of AEC or PanCanadian who would, had the Merger occurred on the date hereof, beneficially own, directly or indirectly, or exercise control or direction over, in excess of 10% of the EnCana Shares.

Description of Share Capital

EnCana will be authorized to issue an unlimited number of EnCana Shares, an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series.

Based upon the number of AEC Shares and PanCanadian Shares outstanding as at February 15, 2002, it is expected that there will be approximately 472.9 million EnCana Shares outstanding on the Effective Date. No EnCana first preferred shares or second preferred shares will be issued and outstanding on the Effective Date.

EnCana Common Shares

The rights, privileges, restrictions and conditions which will be attached to the EnCana Shares are the rights, privileges, restrictions and conditions which are attached to the PanCanadian Shares. The EnCana Shares will carry one vote per share. Subject to the prior rights of holders of EnCana preferred shares, the holders of EnCana Shares will share ratably in any dividends or distributions to the holders of EnCana Shares.

EnCana Preferred Shares

The first preferred shares of EnCana will be issuable in series. The EnCana Board will be empowered to fix the number of first preferred shares and the rights, privileges, restrictions and conditions to be attached to the first preferred shares of each series. The first preferred shares of each series will rank on a parity with the first preferred shares of every other series and have preference over the second preferred shares and the EnCana Shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of EnCana. Except with the consent in writing of the holders of all the first preferred shares outstanding, dividends may not be declared and paid on or set apart for payment on the second preferred shares or the EnCana Shares or on any other shares ranking junior to the first preferred shares, unless all dividends up to and including any dividend payable for the last completed period for which such dividend is payable on each series of first preferred shares outstanding has been declared and paid or set apart for payment. The holders of any particular series of first preferred shares shall, if the EnCana Board so determines prior to the issuance of such series, be entitled to voting rights if EnCana fails to pay dividends on such series of first preferred shares for any period so determined by the EnCana Board. Subject to the foregoing and to applicable law, the holders of first preferred shares as a class will not be entitled to receive notice of, attend or vote at meetings of the EnCana shareholders. The EnCana Board may issue first preferred shares until such time as the aggregate amount payable to holders of first preferred shares as a return of capital in the event of the liquidation, dissolution or winding-up of EnCana or any other distribution of the assets of EnCana among the EnCana shareholders for the purpose of winding-up its affairs would exceed \$500,000,000.

The second preferred shares of EnCana will be issuable in series. The EnCana Board will be empowered to fix the number of second preferred shares and the rights, privileges, restrictions and conditions to be attached to the second preferred shares of each series. The second preferred shares of each series will rank on a parity with the second preferred shares of every other series, rank junior to the first preferred shares and have preference over the EnCana Shares and any other shares ranking junior to the second preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of EnCana. Except with the consent in writing of the holders of all the second preferred shares outstanding, dividends may not be declared and paid on or set apart for payment on the EnCana Shares or on any other shares ranking junior to the second preferred shares, unless all dividends up to and including any dividend payable for the last completed period for which such dividend is payable on each series of second preferred shares outstanding has been declared and paid or set apart for payment. The holders of any particular series of second preferred shares shall, if the EnCana Board so determines prior to the issuance of such series, be entitled to voting rights if EnCana fails to pay dividends on such series of second preferred shares for any period so determined by the EnCana Board. Subject to the foregoing and to applicable law, the holders of second preferred shares as a class will not be entitled to receive notice of, attend or vote at meetings of the EnCana shareholders. The EnCana Board may issue second preferred shares until such time as the aggregate amount payable to holders of second preferred shares as a return of capital in the event of the liquidation, dissolution or winding-up of EnCana or any other distribution of the assets of EnCana among the EnCana shareholders for the purpose of winding-up its affairs would exceed \$500,000,000.

Option Plans

Subject to amendments to account for PanCanadian's change of name and the increase in the number of shares issuable under the PanCanadian Employee Option Plan, the EnCana Employee Option Plan will be the existing PanCanadian Employee Option Plan. Subject to amendments to account for PanCanadian's change of name and the increase in the prescribed initial and annual grants, the EnCana Directors' Option Plan will be the

existing PanCanadian Directors' Option Plan. See "Appendix H — Additional Information — Option Plans" for a summary of the terms of the PanCanadian Option Plans.

Shareholder Rights Plan

EnCana will have a shareholder rights plan, which will be the existing PanCanadian Shareholder Rights Plan. See "Appendix H — Additional Information — Shareholder Rights Plan" for a summary of the terms of the PanCanadian Shareholder Rights Plan.

Dividends

It is anticipated that EnCana will initially pay quarterly dividends on EnCana Shares. The declaration and payment of dividends will be at the discretion of the EnCana Board which will consider earnings, capital requirements, the financial condition of EnCana and other relevant factors.

Auditors, Transfer Agent and Registrar

Subject to approval by the PanCanadian Shareholders at the PanCanadian Meeting, the auditors of EnCana will be PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta, the current auditors of each of PanCanadian and AEC. The transfer agent and registrar of EnCana Shares in Canada will be CIBC Mellon Trust Company, at its principal offices in Calgary, Toronto and Montreal and such other offices as EnCana may determine, and in the U.S. will be Mellon Investor Services LLC, at its principal office in New York, New York.

PART III — INFORMATION RELATING TO AEC AND PANCANADIAN

AEC

AEC is one of North America's largest independent upstream oil and gas exploration and production companies and has been carrying on business since 1975. AEC's upstream activities are comprised of three growth platforms: the Western Canada Growth Platform, the U.S. Rockies Growth Platform and the Ecuador Growth Platform. New Ventures groups are exploring for potential new growth platforms in Alaska, the Mackenzie Delta, the Gulf of Mexico, Azerbaijan and Bahrain. In addition, these groups are seeking other opportunities in the Middle East. AEC also markets crude oil, natural gas and natural gas liquids ("NGLs") for consumption in Canada and the U.S.

AEC's midstream activities are comprised of two business units: Pipelines and Processing, and Gas Storage. The Pipelines and Processing business unit includes interests in pipelines within Alberta, the U.S. Rocky Mountain states, the U.S. mid-western states and South America, and an NGLs extraction facility at Empress, Alberta. Through the Gas Storage business unit, AEC owns and operates natural gas storage facilities in Alberta, California and Oklahoma, leases natural gas storage capacity from other storage operators in the U.S. Gulf Coast and mid-continent regions, markets storage services to third parties, and buys and sells natural gas to earn additional margins while optimizing the use of storage capacity.

Additional information regarding AEC is contained in Appendix G to this Joint Circular.

PanCanadian

PanCanadian is a North American energy company active in the exploration, development, production and marketing of natural gas, crude oil and NGLs and the generation and marketing of electricity. PanCanadian's core areas include the Western Basin, encompassing interests in Western Canada and onshore in the U.S., the East Coast of Canada, the Gulf of Mexico and the United Kingdom. These areas are complemented with focused exploration programs internationally.

PanCanadian has two operating segments: Upstream, and Marketing and Midstream, and operates in seven major lines of business: natural gas, light and medium crude oil, heavy crude oil, NGLs, electricity generation, offshore North America exploration activities and international exploration activities. Marketed products include proprietary and third-party natural gas and electricity, crude oil, and NGLs. Midstream activities include gas processing, NGLs extraction and fractionation, transportation, storage and electricity generation.

Additional information regarding PanCanadian is contained in Appendix H to this Joint Circular.

PART IV — SHARE TRADING INFORMATION

Price Range and Trading Volume of AEC Shares

The AEC Shares are listed on the TSE and NYSE. The following table shows the high and low prices and composite volume of trading of the AEC Shares on the TSE and NYSE, as reported by such exchanges, for the periods indicated.

	TSE			NYSE		
	High	Low	Volume (millions)	High (U.S. dollars)	Low (U.S. dollars)	Volume (millions)
2000						
First Quarter	\$49.35	\$37.75	31.4	\$34.13	\$26.06	3.5
Second Quarter	\$61.75	\$43.55	37.3	\$42.38	\$30.13	3.9
Third Quarter	\$67.50	\$52.05	37.8	\$45.25	\$35.69	4.6
Fourth Quarter	\$71.95	\$55.00	31.1	\$48.25	\$36.00	4.8
2001						
First Quarter	\$74.39	\$59.00	33.1	\$48.25	\$39.19	6.0
Second Quarter	\$78.45	\$59.70	35.3	\$50.90	\$39.20	7.7
Third Quarter	\$63.00	\$49.25	39.9	\$41.60	\$31.60	10.2
Fourth Quarter	\$64.50	\$52.10	37.8	\$41.11	\$33.23	8.5
2002						
January	\$63.30	\$55.20	27.9	\$39.72	\$34.59	6.1
February 1 – 22	\$67.00	\$61.80	19.4	\$41.95	\$39.20	2.8

Price Range and Trading Volume of PanCanadian Shares

The PanCanadian Shares are listed on the TSE and NYSE. The following table shows the high and low prices and composite volume of trading of the PanCanadian Shares on the TSE and NYSE, as reported by such exchanges, for the periods indicated. For the period before October 1, 2001 the price and volume information relates to the common shares of PanCanadian Petroleum Limited.

	TSE			NYSE		
	High	Low	Volume (millions)	High (U.S. dollars)	Low (U.S. dollars)	Volume (millions)
2000						
First Quarter	\$25.35	\$19.50	4.1	—	—	—
Second Quarter	\$34.50	\$24.05	4.9	—	—	—
Third Quarter	\$36.80	\$25.55	5.3	—	—	—
Fourth Quarter	\$42.35	\$34.30	5.4	—	—	—
2001						
First Quarter	\$47.75	\$37.00	24.6	—	—	—
Second Quarter	\$52.30	\$43.00	18.3	—	—	—
Third Quarter	\$49.10	\$35.05	58.8	\$27.82	\$22.51	0.6
Fourth Quarter ⁽¹⁾	\$46.48	\$35.25	70.2	\$29.60	\$22.54	14.0
2002						
January	\$45.90	\$36.35	38.5	\$28.46	\$22.84	5.9
February 1 – 22	\$46.20	\$42.85	27.9	\$28.89	\$26.90	5.3

(1) CPL's interest in PanCanadian was distributed to the CPL common shareholders on October 1, 2001. Concurrently, PanCanadian Shares began trading on the NYSE.

Closing Prices of AEC Shares and PanCanadian Shares

The following table shows the closing prices of the AEC Shares and PanCanadian Shares on the TSE, as reported by such exchange, for the 10 trading days ended January 23, 2002, the average of which closing prices was used in determining the Exchange Ratio.

	AEC Shares	PanCanadian Shares
2002		
January 10	\$56.10	\$38.60
January 11	\$55.89	\$39.40
January 14	\$56.68	\$38.31
January 15	\$57.30	\$37.92
January 16	\$56.80	\$37.60
January 17	\$56.77	\$38.20
January 18	\$57.00	\$38.60
January 21	\$56.37	\$38.35
January 22	\$55.69	\$38.35
January 23	\$56.30	\$38.43

PART V — PROXY AND VOTING MATTERS

Solicitation of Proxies

This Joint Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of each of AEC and PanCanadian for use at the AEC Meeting and the PanCanadian Meeting, respectively. Directors, officers and employees of each of AEC and PanCanadian may, for no additional compensation, solicit proxies for the AEC Meeting and PanCanadian Meeting, respectively, by telephone, telecopy, mail or other communication. Payments could also be made to brokers or nominees holding shares in their names or in the names of their principals for their reasonable expenses in sending solicitation material to their principals. Each of AEC and PanCanadian have retained Georgeson Shareholder Communications Canada, Inc. (“Georgeson”) to assist in the solicitation of proxies for the AEC Meeting and the PanCanadian Meeting and to act as information agent. For its services, Georgeson will be paid a fee of \$67,500 by each of AEC and PanCanadian as well as \$6 for each solicitation telephone call by Georgeson.

Appointment and Revocation of Proxies

Accompanying this Joint Circular are, in the case of AEC Shareholders, a form of proxy printed on GREEN paper and in the case of AEC Optionholders, a form of proxy printed on YELLOW paper for use at the AEC Meeting and in the case of PanCanadian Shareholders, a form of proxy printed on BLUE paper for use at the PanCanadian Meeting.

Voting of Registered Holders of AEC Shares, AEC Options or PanCanadian Shares

All properly executed forms of proxy of AEC Shareholders and AEC Optionholders must be received by CIBC Mellon Trust Company using the enclosed postage prepaid self-addressed envelope, or by otherwise delivering it, to CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1 Attention: Proxy Department in all cases no later than 5:00 p.m. (Calgary time) on April 2, 2002 or, if the AEC Meeting is adjourned, by 5:00 p.m. (Calgary time) on the second business day prior to the date on which the AEC Meeting is reconvened.

All properly executed forms of proxy of PanCanadian Shareholders must be received by CIBC Mellon Trust Company using the enclosed postage prepaid self-addressed envelope, or by otherwise delivering it, to CIBC Mellon Trust Company at Suite 600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1 Attention: Proxy Department in all cases no later than 5:00 p.m. (Calgary time) on April 2, 2002 or, if the PanCanadian Meeting is adjourned, by 5:00 p.m. (Calgary time) on the second business day prior to the date on which the PanCanadian Meeting is reconvened.

The form of proxy must be signed by the securityholder or the securityholder's attorney authorized in writing. If such securityholder is a corporation, the form of proxy must be executed under its corporate seal or by an officer or attorney thereof duly authorized. Persons signing as executors, administrators, or trustees should so indicate and must provide a true copy of the document establishing their authority. A partnership should sign in the partnership name by an authorized person(s).

The persons designated in the forms of proxy furnished by AEC are directors or officers of AEC. The persons designated in the form of proxy furnished by PanCanadian are directors or officers of PanCanadian. **A securityholder submitting a form of proxy has the right to appoint a person (who need not be a securityholder) other than any person designated in the forms of proxy furnished by AEC or PanCanadian to attend and act for them and on their behalf at the AEC Meeting or the PanCanadian Meeting, as the case may be, at which they are entitled to vote. To exercise this right, the securityholder must insert the name of the desired representative in the blank space provided in the form of proxy or may submit another appropriate form of proxy.**

The forms of proxy furnished by AEC and PanCanadian, where the securityholder specifies a choice with respect to the AEC Arrangement Resolution or the PanCanadian Combination Resolutions, as the case may be, will be voted on or withheld from voting on any ballot in accordance with the instructions contained therein. Where no choice is specified, the form of proxy will be voted “FOR” the AEC Arrangement Resolution or PanCanadian Combination Resolutions, as the case may be. The persons appointed under the forms of proxy furnished by AEC and PanCanadian are conferred discretionary authority with respect to amendments to those matters specified in the forms of proxy or other matters which may properly come before the AEC Meeting or the

PanCanadian Meeting, respectively. At the time of the printing of this Joint Circular, the management of each of AEC and PanCanadian know of no such amendment or other matter except as disclosed in this Joint Circular. If any matters which are not now known should properly come before the AEC Meeting or the PanCanadian Meeting, the persons named in the enclosed forms of proxy will vote on such matters in accordance with their best judgment.

A form of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the AEC Meeting or the PanCanadian Meeting, at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the securityholder or the securityholder's attorney, authorized in writing, or if the securityholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited with the Corporate Secretary of AEC or PanCanadian, as the case may be, or their respective transfer agents at the address referred to herein, no later than the close of business, local time, on the day (excluding Saturdays, Sundays and statutory holidays) before the AEC Meeting or the PanCanadian Meeting, respectively, or, if such meeting is adjourned, on the day (excluding Saturdays, Sundays and statutory holidays) before it is reconvened, or with the Chairman of the meeting immediately prior to such meeting, or any reconvened meeting, and upon either of such deposits the proxy is revoked.

Advice to Beneficial Owners of AEC Shares or PanCanadian Shares

The information set forth in this section is of significant importance to many shareholders, as a substantial number of shareholders do not hold shares in their own name. Shareholders who hold AEC Shares or PanCanadian Shares through their brokers, intermediaries, trustees or other persons, or who otherwise do not hold their AEC Shares or PanCanadian Shares in their own name (referred to in this section as "Beneficial Shareholders") should note that only proxies deposited by shareholders whose names appear on the records of AEC or PanCanadian, as the case may be, may be recognized and acted upon at the AEC Meeting and PanCanadian Meeting, respectively. If AEC Shares or PanCanadian Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, then in almost all cases those shares will not be registered in the Beneficial Shareholder's name on the records of AEC or PanCanadian, as the case may be. Such shares will more likely be registered under the names of the broker or an agent of that broker. In Canada, the vast majority of shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). Shares held by brokers, agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers, agents and nominees are prohibited from voting shares for the brokers' clients. **Therefore, Beneficial Shareholders should ensure that instructions respecting the voting of their AEC Shares or PanCanadian Shares are communicated to the appropriate person by the appropriate time.**

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. Each intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders to ensure that their AEC Shares or PanCanadian Shares, as applicable, are voted at the appropriate meeting. The purpose of the form of proxy or voting instruction form supplied to a Beneficial Shareholder by its broker, agent or nominee is limited to instructing the registered shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Independent Investor Communications Corporation ("IICC"). IICC typically supplies a voting instruction form, mails those forms to the Beneficial Shareholders and asks Beneficial Shareholders to return the forms to IICC or follow specified telephone or internet voting procedures. IICC then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the AEC Meeting or PanCanadian Meeting. **A Beneficial Shareholder receiving a voting instruction form from IICC cannot use that form to vote AEC Shares or PanCanadian Shares directly at the respective meeting. The voting instruction forms must be returned to IICC or the telephone or internet procedures completed well in advance of the respective meeting in order to have such shares voted.**

Although Beneficial Shareholders may not be recognized directly at the appropriate meeting for the purpose of voting shares registered in the name of their broker, agent or nominee, a Beneficial Shareholder may

attend at the appropriate meeting as proxyholder for the registered shareholder and vote the AEC Shares or PanCanadian Shares, as the case may be, in that capacity. Beneficial Shareholders who wish to attend at the appropriate meeting and indirectly vote their AEC Shares or PanCanadian Shares, as the case may be, as proxyholder for the registered shareholder, should enter their own names in the blank space on the form of proxy or voting instruction form provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the appropriate meeting.

Voting and Record Date

Each AEC Securityholder of record at the close of business on February 27, 2002 will be entitled to receive notice of the AEC Meeting. Each such securityholder will be entitled to vote at the AEC Meeting, in accordance with the provisions set out below, unless, in the case of an AEC Shareholder, such shareholder transfers the ownership of any of the AEC Shares held by that shareholder after February 27, 2002 and the transferee of those shares establishes that such transferee owns the shares and demands to AEC's transfer agent at the address referred to in this Joint Circular, not later than 10 days before the AEC Meeting, that the transferee's name be included in the list of shareholders entitled to vote at the AEC Meeting.

Each PanCanadian Shareholder of record at the close of business on February 27, 2002 will be entitled to receive notice of the PanCanadian Meeting. Each such shareholder will be entitled to vote at the PanCanadian Meeting, in accordance with the provisions set out below, unless such shareholder transfers the ownership of any of the PanCanadian Shares held by that shareholder after February 27, 2002 and the transferee of those shares establishes that such transferee owns the shares and demands to PanCanadian's transfer agent at the address referred to in this Joint Circular, not later than 10 days before the PanCanadian Meeting, that the transferee's name be included in the list of shareholders entitled to vote at the PanCanadian Meeting. In connection with the calling of the PanCanadian Meeting, PanCanadian obtained an order from the Court under Section 144 of the CBCA to give such transferees of PanCanadian Shares the right to have their names included in the list of shareholders entitled to vote at the PanCanadian Meeting.

The meetings will be held and conducted, in the case of AEC, in accordance with the Interim Order, the ABCA and the by-laws of AEC and, in the case of PanCanadian, in accordance with the order of the Court, the CBCA and the by-laws of PanCanadian.

AEC proxies and PanCanadian proxies will be counted and tabulated by CIBC Mellon Trust Company in such a manner as to preserve the confidentiality of individual securityholder votes, except: (a) as necessary to meet the applicable legal requirements; (b) in the event of a proxy contest; or (c) in the event such securityholder has made a written comment on the form of proxy.

There were 147,768,133 AEC Shares and 9,586,938 AEC Options outstanding as at February 15, 2002. With respect to voting on the AEC Arrangement Resolution or on other matters properly coming before the AEC Meeting, each AEC Shareholder is entitled to one vote for each AEC Share held and each AEC Optionholder is entitled to one vote for each AEC Share which he or she would receive upon valid exercise of his or her AEC Options. For the AEC Arrangement Resolution to be approved, at least 66⅔% of the votes cast by AEC Securityholders, present in person or represented by proxy, must be cast in favour of such resolution. Management of AEC is not aware of any person owning, beneficially, directly or indirectly, or exercising control or discretion over more than 10% of the AEC Shares, other than Fidelity Management & Research Company, which held 17,599,395 AEC Shares, representing 11.9% of the outstanding AEC Shares, as at February 15, 2002.

There were 255,358,686 PanCanadian Shares outstanding as at February 15, 2002. With respect to voting on the PanCanadian Combination Resolutions or on other matters properly coming before the PanCanadian Meeting, each PanCanadian Shareholder is entitled to one vote for each PanCanadian Share held. For the PanCanadian Combination Resolutions to be approved, more than 50% of the votes cast by PanCanadian Shareholders, present in person or represented by proxy, must be cast in favour of such resolutions (other than the amendment to the articles of PanCanadian to change the name of PanCanadian to EnCana Corporation, for which at least 66⅔% of the votes cast by PanCanadian Shareholders, present in person or represented by proxy, must be cast in favour of such resolution). Management of PanCanadian is not aware of any person owning, beneficially, directly or indirectly, or exercising control or discretion over more than 10% of the PanCanadian Shares.

PART VI — OTHER INFORMATION

Legal Matters

Macleod Dixon LLP, Canadian legal counsel to AEC, has advised AEC with respect to certain legal matters in connection with the Merger and McCarthy Tétrault LLP, Canadian tax counsel to AEC, has advised AEC with respect to certain Canadian tax considerations in connection with the Merger.

Bennett Jones LLP, Canadian legal counsel to PanCanadian, has advised PanCanadian with respect to certain legal matters in connection with the Merger and Felesky Flynn LLP, Canadian tax counsel to PanCanadian, has advised PanCanadian with respect to certain Canadian tax considerations in connection with the Merger.

Paul, Weiss, Rifkind, Wharton & Garrison, U.S. legal counsel to AEC, has advised AEC with respect to certain U.S. legal matters in connection with the Merger including with respect to certain U.S. tax considerations.

Sidley Austin Brown & Wood, U.S. legal counsel for PanCanadian, has advised PanCanadian with respect to certain U.S. legal matters in connection with the Merger including with respect to certain U.S. tax considerations.

As at February 22, 2002, partners and associates of each of Macleod Dixon LLP, Bennett Jones LLP, Paul, Weiss, Rifkind, Wharton & Garrison, Sidley Austin Brown & Wood, McCarthy Tétrault LLP and Felesky Flynn LLP owned beneficially, directly or indirectly, less than 1% of the outstanding AEC Shares and less than 1% of the outstanding PanCanadian Shares.

Experts

The consolidated financial statements of AEC included in this Joint Circular have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, as indicated in their report with respect thereto and are included in this Joint Circular in reliance upon the authority of PricewaterhouseCoopers LLP, Chartered Accountants as experts in giving such report.

The consolidated financial statements of PanCanadian included in this Joint Circular have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, as indicated in their report with respect thereto and are included in this Joint Circular in reliance upon the authority of PricewaterhouseCoopers LLP, Chartered Accountants as experts in giving such report.

Available Information

In the U.S., AEC and PanCanadian are subject to the informational requirements of the U.S. Exchange Act, and in accordance therewith must file reports and other information with the SEC. Under a multijurisdictional disclosure system adopted by the SEC, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the U.S. Such reports and other information filed by AEC and PanCanadian are available for inspection and copying at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. Copies of certain of the above detailed material can also be obtained at prescribed rates from the Public Reference section of the SEC at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C., 20549. This Joint Circular can be viewed at www.aec.ca, www.pcenergy.com, www.gsccanada.com or www.sedar.com.

Reliance

AEC has provided the information contained in this Joint Circular concerning AEC, its subsidiaries and the companies or partnerships in which it has equity investments. PanCanadian assumes no responsibility for the accuracy or completeness of information concerning AEC, nor for any omission on the part of AEC to disclose facts or events which may affect the accuracy of any such information.

PanCanadian has provided the information contained in this Joint Circular concerning PanCanadian, its subsidiaries and the companies or partnerships in which it has equity investments. AEC assumes no responsibility for the accuracy or completeness of information concerning PanCanadian, nor for any omission on the part of PanCanadian to disclose facts or events which may affect the accuracy of any such information.

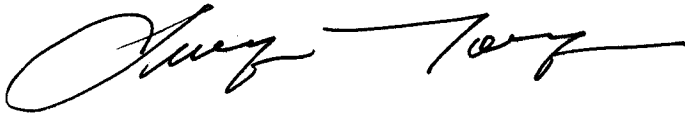
AEC CERTIFICATE

The contents of this Joint Circular and the sending thereof to the AEC Securityholders has been approved by the AEC Board.

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

Dated at Calgary, Alberta, this 22nd day of February, 2002.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read 'Gwyn Morgan', with a long horizontal flourish extending to the right.

Gwyn Morgan
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'John D. Watson', with a stylized 'J' and 'W'.

John D. Watson
Vice-President, Finance and
Chief Financial Officer

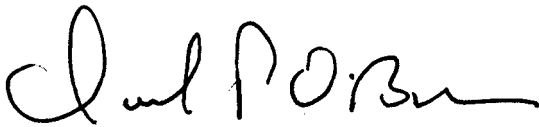
PANCANADIAN CERTIFICATE

The contents of this Joint Circular and the sending thereof to the PanCanadian Shareholders has been approved by the PanCanadian Board.

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

Dated at Calgary, Alberta, this 22nd day of February, 2002.

BY ORDER OF THE BOARD OF DIRECTORS



David P. O'Brien
Chairman and Chief
Executive Officer



Wesley R. Twiss
Executive Vice President and
Chief Financial Officer

APPENDIX A

AEC ARRANGEMENT RESOLUTION

AEC ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. the arrangement (the “Arrangement”) under Section 193 of the *Business Corporations Act* (Alberta) substantially as set forth in the Plan of Arrangement attached as Schedule A to the Amended and Restated Combination Agreement dated as of January 27, 2002 (the “Combination Agreement”) between Alberta Energy Company Ltd. (the “Corporation”) and PanCanadian Energy Corporation, which Combination Agreement is attached as Appendix D to the Joint Information Circular accompanying the Notice of this Special Meeting (as such Combination Agreement may be or may have been modified or amended as provided for in the Combination Agreement), is hereby authorized and approved;
2. the Combination Agreement, as amended (if applicable), is hereby ratified, confirmed and approved;
3. notwithstanding that this resolution has been duly passed by the shareholders and optionholders of the Corporation or that the Arrangement has received the approval of the Court of Queen’s Bench of Alberta, the board of directors of the Corporation is hereby authorized and empowered in its sole discretion, without further notice to or approval of the shareholders or optionholders of the Corporation: (a) subject to the terms of the Combination Agreement, to amend the Combination Agreement at any time prior to the Arrangement becoming effective; or (b) to decide not to proceed with the Arrangement or revoke this resolution at any time prior to the Arrangement becoming effective; and
4. any director or officer of the Corporation is hereby authorized for and on behalf of the Corporation to execute or cause to be executed, under the corporate seal or otherwise, and to deliver or cause to be delivered in the name of and on behalf of the Corporation, all such documents, agreements and instruments including, without limitation, articles of arrangement, and to do or cause to be done all such other acts and things as such director or officer shall determine to be necessary or desirable in order to carry out the intent of this resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or the doing of any such act or thing.

APPENDIX B

PANCANADIAN RESOLUTIONS

PANCANADIAN COMBINATION RESOLUTIONS
PANCANADIAN ENERGY CORPORATION
(the “Corporation”)

Resolution 1: Combination Agreement and Issuance of Shares

RESOLVED, as an ordinary resolution, that:

1. the amended and restated combination agreement dated as of January 27, 2002, as may be further amended and restated, between the Corporation and Alberta Energy Company Ltd. (“AEC”) (the “Combination Agreement”) pursuant to which PanCanadian and AEC have agreed to implement the business combination of AEC and the Corporation is hereby ratified, confirmed and approved;
2. the issuance of common shares in the capital of the Corporation (the “PanCanadian Shares”) in connection with the arrangement involving AEC under the *Business Corporations Act* (Alberta) (the “Arrangement”) as set out in Schedule A to the Combination Agreement is hereby authorized and approved;
3. notwithstanding that this resolution has been duly passed by the shareholders of the Corporation, or that the Arrangement has received the approval of the Court of Queen’s Bench of Alberta, the board of directors of the Corporation is hereby authorized and empowered, in its sole discretion, without further notice to or approval of the shareholders of the Corporation: (a) subject to the terms of the Combination Agreement, to amend the Combination Agreement at any time prior to the Arrangement becoming effective; or (b) to decide not to proceed with or participate in the Arrangement or revoke this resolution at any time prior to the Arrangement becoming effective; and
4. any officer of the Corporation is hereby authorized to sign and deliver for and on behalf of the Corporation all such documents and to do all such other acts as such officer may consider necessary or desirable to give effect to the foregoing.

Resolution 2: Election of Additional Directors to Hold Office after the Arrangement Becomes Effective

RESOLVED, as an ordinary resolution, that, conditional upon and with effect from the arrangement (the “Arrangement”) described in the Joint Information Circular accompanying the Notice of Annual and Special Meeting becoming effective, the following persons be and are hereby elected to hold office, in addition to those already elected or in office, as directors of the Corporation from and after the Arrangement becoming effective until the next annual meeting or until their successors are elected or appointed:

Michael N. Chernoff	Dale A. Lucas
Ian W. Delaney	Gwyn Morgan
Richard F. Haskayne, O.C.	Valerie A.A. Nielsen
John C. Lamacraft	T. Don Stacy

Resolution 3: Change of Name

RESOLVED, as a special resolution, that:

1. conditional upon the arrangement (the “Arrangement”) described in the Joint Information Circular accompanying the Notice of Annual and Special Meeting becoming effective, the articles of the Corporation be amended to change the name of the Corporation to “EnCana Corporation”; and
2. any one director or officer of the Corporation be and hereby is authorized, for and on behalf of the Corporation, to execute and deliver articles of amendment and all other documents and do all such other acts or things as such person may determine to be necessary or advisable to give effect to this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

Resolution 4: Amendment of the Key Employee Stock Option Plan

RESOLVED, as an ordinary resolution, that, conditional upon and with effect from the arrangement (the “Arrangement”) described in the Joint Information Circular accompanying the Notice of Annual and Special Meeting becoming effective, the amendment of the Key Employee Stock Option Plan of the Corporation to increase the maximum number of common shares of the Corporation that may be issued under such plan by 19,500,000 shares is hereby approved.

Resolution 5: Amendment of the Directors’ Stock Option Plan

RESOLVED, as an ordinary resolution, that, conditional upon and with effect from the arrangement (the “Arrangement”) described in the Joint Information Circular accompanying the Notice of Annual and Special Meeting becoming effective, the amendment to the Directors’ Stock Option Plan of the Corporation to increase the prescribed number of options that may be issued in respect of initial and annual grants to 15,000 (initial) and 7,500 (annual) is hereby approved, on the basis that:

1. such increase in the initial grants will apply only in respect of directors elected or appointed after the effective date of the Arrangement and not to the PanCanadian directors who are in office at the time the Arrangement becomes effective or to the directors of Alberta Energy Company Ltd. (“AEC”) who become directors of EnCana Corporation upon the Arrangement becoming effective; and
2. the increased annual limit will apply to annual grants commencing in 2002 and will include those PanCanadian directors and AEC directors who become directors of EnCana Corporation if they have not otherwise received an annual grant of options from either PanCanadian or AEC in 2002.

APPENDIX C
INTERIM ORDER

IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE OF CALGARY

**IN THE MATTER OF Section 193 of the *Business Corporations Act*, being
Chapter B-9 of the Revised Statutes of Alberta, 2000.**

**IN THE MATTER OF a proposed Arrangement in respect of Alberta
Energy Company Ltd. and its Shareholders and Optionholders.**

BEFORE THE HONOURABLE MR. JUSTICE D.G. HART IN CHAMBERS	}	At the Court House, in the City of Calgary, in the Province of Alberta, on Friday, the 22nd day of February, 2002.
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INTERIM ORDER

UPON the application by Petition of Alberta Energy Company Ltd. ("AEC");

AND UPON reading the said Petition and the Affidavit of Gwyn Morgan, President and Chief Executive Officer of AEC, sworn February 22, 2002, and the documents referred to therein, filed (the "Affidavit");

AND UPON it appearing that notice of this application has been given to the Executive Director of the Alberta Securities Commission (the "Executive Director") as required by Section 193(8) of the *Business Corporations Act*, being Chapter B-9 of the Revised Statutes of Alberta, 2000 (the "ABCA");

AND UPON hearing counsel for the Petitioner and for PanCanadian Energy Corporation ("PanCanadian");

IT IS HEREBY ORDERED AND DIRECTED THAT:

1. AEC shall call a special meeting (the "AEC Meeting") of the holders of its issued and outstanding common shares (the "AEC Shares") and options to purchase common shares (the "AEC Options") to consider and, if deemed advisable, pass a special resolution (the "AEC Arrangement Resolution") approving a proposed arrangement (the "Arrangement") under Section 193 of the ABCA in respect of AEC and its said holders of AEC Shares (the "AEC Shareholders") and said holders of AEC Options (the "AEC Optionholders"), and involving PanCanadian and 3063550 Nova Scotia Company, in respect of which a true copy of the Plan of Arrangement providing for the Arrangement in its substantially final form is annexed as Schedule A to the Combination Agreement found in Exhibit "A" to the Affidavit.
2. The AEC Meeting shall be called, held and conducted in accordance with the ABCA and the articles and the by-laws of AEC, subject to what is provided hereafter.
3. AEC shall mail the Notice of Special Meeting, Notice of Petition and Joint Information Circular, in substantially the form contained in Exhibit "A" to the Affidavit, with such amendments thereto as counsel for AEC may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this Order, to the AEC Shareholders and AEC Optionholders of record as at the close of business on February 27, 2002, to the directors and auditors of AEC, and to the Executive Director, by mailing the same by prepaid ordinary mail to such persons in accordance with the ABCA at least 21 days prior to the date of the AEC Meeting. In calculating the 21 day period, the date of mailing shall be included and the date of the AEC Meeting shall be excluded. Such mailing shall constitute good and sufficient service of notice of the Petition, the AEC Meeting and the hearing in respect of the Petition and no other form of service need be made or other material served on such persons.

4. The accidental omission to give notice of the AEC Meeting, or the non-receipt of such notice by one or more of the persons specified in paragraphs 3 and 6 hereof, shall not invalidate any resolution passed or proceedings taken at the AEC Meeting.
5. For purposes of the AEC Meeting:
 - (a) the securities of AEC for which the holders shall be entitled to vote at the AEC Meeting, either in person or by proxy, shall be the AEC Shares and the AEC Options;
 - (b) the AEC Shareholders and AEC Optionholders shall be the only persons entitled to vote on the Arrangement and they shall vote together, and not as separate classes, with the AEC Shareholders being entitled to one vote for each AEC Share held and the AEC Optionholders being entitled to one vote for each AEC Share issuable pursuant to each AEC Option held; and
 - (c) the requisite majority for the approval of the Arrangement by the AEC Shareholders and AEC Optionholders shall be two-thirds of the aggregate votes cast by the AEC Shareholders and AEC Optionholders attending in person or by proxy at the AEC Meeting, voting together as a single class, in respect of the AEC Arrangement Resolution.
6. The only persons entitled to notice of the AEC Meeting shall be the registered holders of AEC Shares and AEC Options as they may appear on the records of AEC as at the close of business on the 27th day of February, 2002, the directors and auditors of AEC and the Executive Director, and the only persons entitled to be represented and to vote at the AEC Meeting, either in person or by proxy, shall be such registered holders of AEC Shares and AEC Options, subject to the by-laws of AEC and section 137 of the ABCA with respect to transferees of such shares after that date.
7. Upon approval of the Arrangement at the AEC Meeting in the manner set forth in this Order, AEC may apply before this Court for approval of the Arrangement, which application shall be heard before the Honourable Mr. Justice S.J. LoVecchio, or such other Justice as may preside, at the Court House, 611 - 4th Street S.W., in the City of Calgary, on Friday, April 5th, 2002 at 9:00 a.m. or so soon thereafter as counsel may be heard.
8. The mailing of the Notice of Special Meeting, Notice of Petition and Joint Circular referred to in paragraph 3 of this Order, in accordance with the provisions of this Order shall constitute good and sufficient service in respect of the Petition upon all persons who are entitled to receive such notice pursuant to this Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings, and service of the Petition and the Affidavit is dispensed with, except for service thereof on the Executive Director.
9. Any AEC Shareholder or AEC Optionholder and any other interested person may appear on the application for the approval of the Arrangement, provided that such holder or person shall file with this Court and serve on AEC, by service on its counsel, on or before 12:00 noon (Calgary Time) on April 1, 2002, a Notice of Appearance setting out the address for service in respect of such holder or person and indicating whether such holder or person intends to support or oppose the application or make submissions thereat together with any evidence or materials which are to be presented to this Court, such Notice of Appearance to be effected by delivery, at the address set forth below:

Macleod Dixon LLP
Barristers and Solicitors
3700, 400 Third Avenue S.W.
Calgary, Alberta T2P 4H2
Attention: John J. Marshall, Q.C.

10. If the application for approval of the Arrangement is adjourned, only those holders or persons who have filed and served a Notice of Appearance in accordance with paragraph 9 above need be served with notice of the adjourned date.

11. AEC shall be entitled at any time to seek leave to vary this Order upon such terms and upon giving such notice as this Court may direct.

“D.G. Hart”
J.C.Q.B.A.

ENTERED this 22nd day
of February, 2002.

“Jim McLaughlin”
Clerk of the Court

APPENDIX D
COMBINATION AGREEMENT

AMENDED AND RESTATED
COMBINATION AGREEMENT

between

PANCANADIAN ENERGY CORPORATION

and

ALBERTA ENERGY COMPANY LTD.

as of

January 27, 2002

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AMENDED AND RESTATED COMBINATION AGREEMENT

THIS COMBINATION AGREEMENT, as amended on the 22nd day of February, 2002, is made and restated as of January 27, 2002,

BETWEEN

PANCANADIAN ENERGY CORPORATION, a body corporate existing under the laws of Canada with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "**PanCanadian**")

AND

ALBERTA ENERGY COMPANY LTD., a body corporate existing under the laws of the Province of Alberta with its head office in the City of Calgary, in the Province of Alberta (hereinafter called "**AEC**")

WHEREAS PanCanadian and AEC wish to propose a combination of their businesses;

AND WHEREAS the parties hereto intend to carry out the transactions contemplated herein by way of an arrangement involving AEC, its shareholders and optionholders, PanCanadian and a subsidiary of PanCanadian under the provisions of the *Business Corporations Act* (Alberta);

AND WHEREAS the parties hereto have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to such arrangement;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the covenants and agreements herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto do hereby covenant and agree as follows.

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as may be amended;

"**AEC Arrangement Resolution**" means the special resolution of AEC Shareholders and AEC Optionholders approving the Arrangement;

"**AEC Meeting**" means such meeting or meetings of AEC Shareholders and AEC Optionholders as are required to be held in accordance with the Interim Order;

"**AEC Option Plan**" means the AEC Share Option Plan, as amended and restated effective July 18, 2001;

"**AEC Optionholders**" means the holders of options under the AEC Option Plan;

"**AEC Options**" means options outstanding under the AEC Option Plan;

"**AEC Partially Owned Entities**" means AEC Oil Sands Limited Partnership, Alberta Energy Pipelines (Chile) S.A., Cold Lake Pipeline Limited Partnership, Cold Lake Pipeline Ltd., and Texus Seismic LLC;

"**AEC Shareholder Rights Plan**" means the Shareholder Rights Plan Agreement dated as of February 16, 1994, as amended and restated as of February 17, 1999 between AEC and CIBC Mellon Trust Company;

"**AEC Shareholders**" means the holders of AEC Shares;

"**AEC Shares**" means the common shares in the capital of AEC;

"**Acquisition Proposal**" means any merger, amalgamation, consolidation, arrangement, business combination, recapitalization, take-over bid, sale of material assets, material sale of treasury shares or rights or interests

therein or thereto (other than a public offering of treasury shares) or similar transactions involving PanCanadian or AEC or any Material Subsidiary of PanCanadian or AEC, or a proposal to do so, excluding the Pre-Arrangement Steps and the Arrangement;

“**ArrangeCo**” means an unlimited liability company to be incorporated under the *Companies Act* of Nova Scotia, and a wholly-owned subsidiary of PanCanadian;

“**Arrangement**” means the arrangement involving AEC, the AEC Shareholders, the AEC Optionholders and ArrangeCo under the provisions of Section 193 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement;

“**Articles of Arrangement**” means the articles of arrangement in respect of the Arrangement required by the ABCA to be sent to the Registrar after the Final Order is made;

“**business day**” means any day, other than Saturday, Sunday and a statutory holiday in the Province of Alberta;

“**CBCA**” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

“**Competition Act**” means the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

“**Confidentiality Agreement**” means the Reciprocal Confidentiality Agreement dated January 10, 2002 between PanCanadian and AEC;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Effective Date**” means the date upon which the Arrangement becomes effective under the ABCA;

“**Encumbrance**” includes, without limitation, any mortgage, pledge, assignment, charge, lien, security interest, adverse interest in property, other third party interest or encumbrance of any kind, whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing;

“**Environmental Approvals**” means all permits, certificates, licenses, authorizations, consents, instructions, registrations, directions or approvals issued or required by Governmental Entities pursuant to Environmental Laws;

“**Environmental Laws**” means all applicable Laws, including applicable common laws, relating to the protection of the environment and employee and public health and safety;

“**Exchange Ratio**” means 1.472 PanCanadian Shares for each AEC Share;

“**Final Order**” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the Arrangement becoming effective or, if appealed, then unless such appeal is withdrawn or denied, as affirmed;

“**Governance Arrangements**” means the arrangements set forth in Schedule D hereto;

“**Governmental Entity**” means any (a) multi-national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign, (b) subdivision, agent, commission, board or authority of any of the foregoing or (c) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing;

“**HSR Act**” means the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, of the United States of America;

“**Hazardous Substance**” means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Law;

“**Interim Order**” means the interim order of the Court, as the same may be amended, containing declarations and directions with respect to the Arrangement and providing for, among other things, the calling and holding of the AEC Meeting;

“Joint Circular” means the joint management information circular to be prepared and sent to the AEC Shareholders and the AEC Optionholders in connection with the AEC Meeting and to the PanCanadian Shareholders in connection with the PanCanadian Meeting;

“Laws” means all laws, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements of any Governmental Entity;

“material adverse change” or **“material adverse effect”** means, when used in connection with PanCanadian or AEC, any change, effect, event, occurrence or change in a state of facts that is, or would reasonably be expected to be, material and adverse to the business, operations or financial condition of such Party and its Subsidiaries, taken as a whole, other than any change, effect, event, occurrence or change in a state of facts principally caused by a change, effect, event, occurrence or change in a state of facts in (i) the Canadian or United States economies or financial, currency exchange, securities or commodities markets in general or the general markets for crude oil and natural gas on a current or forward basis, (ii) the trading price of the PanCanadian Shares or AEC Shares, respectively, or other securities of PanCanadian or AEC immediately following and reasonably attributable to the announcement of this Agreement and the transactions contemplated hereby, (iii) the oil and gas industry in general, and (iv) specific matters disclosed in the disclosure memoranda delivered pursuant to Section 1.11;

“Material Subsidiary” in respect of a Party means a Subsidiary of that Party the total assets of which constitute more than 10% of the consolidated assets of the Party or the total revenues of which constitute more than 10% of the consolidated revenues of that Party, in each case based on the unaudited interim financial statements for the nine months ended September 30, 2001;

“PanCanadian Combination Resolutions” means the resolutions of PanCanadian Shareholders approving the matters set forth in Section 2.3;

“PanCanadian Meeting” means an annual and special meeting of PanCanadian Shareholders to be held for the purpose, among other things, of approving the PanCanadian Combination Resolutions;

“PanCanadian Option Plans” means, collectively, the PanCanadian Key Employee Stock Option Plan and the PanCanadian Directors’ Stock Option Plan;

“PanCanadian Partially Owned Entities” means Kinetic Resources (LPG), Kinetic Resources (U.S.A.), Smart Core Systems Inc., Petrovera Resources Limited, and Petrovera Resources;

“PanCanadian Shareholder Rights Plan” means the Amended and Restated Shareholder Rights Plan Agreement dated as of September 13, 2001 between PanCanadian and CIBC Mellon Trust Company;

“PanCanadian Shareholders” means the holders of PanCanadian Shares;

“PanCanadian Shares” means common shares in the capital of PanCanadian;

“PanCanadian Substitute Options” means the options for PanCanadian Shares into which the AEC Options outstanding on the Effective Date are converted pursuant to the terms of the Plan of Arrangement;

“Parties” means PanCanadian and AEC; and **“Party”** means either one of them;

“Partially Owned Entities” means the PanCanadian Partially Owned Entities and AEC Partially Owned Entities;

“Plan of Arrangement” means the plan of arrangement substantially in the form and content annexed as Schedule A hereto and any amendment or variation thereto made in accordance with the Plan of Arrangement or Section 7.1 hereof;

“Pre-Arrangement Steps” means the steps agreed to by the Parties to be undertaken in advance of the Arrangement as described in Section 5.3(k);

“Registrar” means the Registrar of Corporations appointed pursuant to Section 263 of the ABCA;

“Registration Statement” means the registration statement on Form S-8 referred to in Section 5.9(h) hereof;

“Returns” means all material reports, information statements and returns relating to, or required to be filed in connection with, any Taxes;

“**Subsidiary**” means, with respect to a specified body corporate, any body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the board of directors thereof (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) are at the time owned directly or indirectly by such specified body corporate and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control or which is in a like relation to a Subsidiary. Subject to Section 1.7, “Subsidiary” shall include the Partially Owned Entities;

“**Superior Proposal**” shall have the meaning as set forth in Section 5.5(a);

“**Tax Act**” means the *Income Tax Act*, R.S.C. 1985, c. 1 (5th supp.), as amended; and

“**Taxes**” means all taxes, however denominated, including any interest, penalties or other additions that may become payable in respect thereof, imposed by any Governmental Entity, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including, but not limited to, federal, state and provincial income taxes), capital taxes, payroll and employee withholding taxes, unemployment insurance, social insurance taxes (including Canada Pension Plan payments), sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers’ compensation, pension assessment and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which one of the Parties or any of its Subsidiaries is required to pay, withhold or collect.

1.2 Interpretation

The division of this Agreement into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. The Parties hereto acknowledge that their respective legal counsel have reviewed and participated in settling the terms of this Agreement, and the Parties hereby agree that any rule of construction to the effect that any ambiguity is to be resolved against the drafting Party will not be applicable in the interpretation of this Agreement.

1.3 Article References

Unless the contrary intention appears, references in this Agreement to an Article, Section, subsection, paragraph or Schedule by number or letter or both refer to the Article, Section, subsection, paragraph or Schedule, respectively, bearing that designation in this Agreement.

1.4 Number and Gender

In this Agreement, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any Governmental Entity).

1.5 Date for Any Action

If the date on which any action is required to be taken hereunder by any of the Parties is not a day of business in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a day of business in such place.

1.6 Currency

Unless otherwise stated, all references in this Agreement to sums of money are expressed in lawful money of Canada.

1.7 Partially Owned Entities

Notwithstanding any other provisions hereof, the representations and warranties given hereunder with respect to the Partially Owned Entities or their subsidiaries (by incorporation in the definition of Subsidiaries)

including in Schedule B or C, are given by the respective Party only to the best of the actual knowledge of its executive officers, based on inquiry of the management of a Party or its Subsidiaries (excluding the Partially Owned Entities or their subsidiaries) but without inquiry of the management or employees of the Partially Owned Entity or its subsidiaries, except for the representations and warranties given respecting PanCanadian's or AEC's direct or indirect ownership of such Partially Owned Entities. Covenants given by a Party which refer to any of the Subsidiaries shall not extend to the Partially Owned Entities; provided however, that if an issue relating to any of the Partially Owned Entities arises, which issue would be the subject matter of any of the covenants contained in this Agreement but for the fact that the covenants do not extend to the Partially Owned Entities, subject to any pre-existing agreement, the respective Party shall vote its voting interests in the relevant Partially Owned Entity in respect of such issue consistent with complying with the relevant covenant as though such covenant did extend to the relevant Partially Owned Entity. The respective Party shall also exercise any other proper influence in the relevant Partially Owned Entity in a manner consistent with complying with the relevant covenant as though such covenant did extend to the relevant Partially Owned Entity, subject to any applicable Laws, applicable fiduciary duties or contractual obligations (other than under this Agreement). To the extent any representations, warranties, covenants or agreements contained herein relate, directly or indirectly, to a Subsidiary of any Party, other than Partially Owned Entities, each such provision shall be construed as a covenant by such Party to cause (to the fullest extent to which it is legally capable) such Subsidiary to perform the required action.

1.8 Schedules

Schedules A, B, C and D annexed to this Agreement, being the Plan of Arrangement, the representations and warranties of PanCanadian and AEC, and the Governance Arrangements, respectively, are incorporated by reference into this Agreement and form a part hereof.

1.9 Accounting Matters

Unless otherwise stated, all accounting terms used in this Agreement shall have the meanings attributable thereto under Canadian generally accepted accounting principles and all determinations of an accounting nature required to be made shall be made in a manner consistent with Canadian generally accepted accounting principles.

1.10 Material

The terms "material" and "materially" shall, when used in this Agreement, be construed, measured or assessed on the basis of whether the matter would materially affect a Party and its Subsidiaries, taken as a whole, or would significantly impede the ability to complete the Arrangement in accordance with this Agreement.

1.11 Disclosure

Where in this Agreement reference is made to disclosure in writing, or disclosed in writing on or prior to the date hereof, such disclosure shall be made in writing in separate memorandum, dated the date hereof and signed by an officer of each of PanCanadian or AEC, as the case may be, and delivered to the other immediately prior to the execution of this Agreement. Such disclosure memoranda shall make specific reference to the applicable Sections and paragraphs of this Agreement in respect of which such disclosure is made.

1.12 General — Representations and Warranties

Representations, warranties and covenants contained herein and references herein to "as of the date hereof" and similar expressions shall be considered to be made, agreed to, or be made, as the case may be, as of January 27, 2002.

1.13 Restatement

This Agreement has been amended and restated on February 22, 2002. Notwithstanding such amendment and restatement, this Agreement shall be dated as of January 27, 2002 and all references to the date hereof or which speak to the date of execution herein shall be considered to speak as of January 27, 2002.

ARTICLE 2
THE COMBINATION

2.1 Application to the Court

As soon as reasonably practicable, AEC shall apply to the Court pursuant to Section 193 of the ABCA for an order approving the Arrangement and in connection with such application PanCanadian shall assist and AEC shall:

- (a) file, proceed with and diligently prosecute an application for an Interim Order providing for, among other things, the calling and holding of the AEC Meeting for the purpose, among other things, of considering and, if deemed advisable, approving the Arrangement; and
- (b) subject to obtaining the approvals as contemplated in the Interim Order and as may be directed by the Court in the Interim Order, take all steps necessary or desirable to submit the Arrangement to the Court and apply for the Final Order;

and, subject to the fulfillment or waiver of the conditions set forth in Article 6, AEC shall file with the Registrar Articles of Arrangement and such other documents as may be required to give effect to the Arrangement.

2.2 Interim Order

The Interim Order sought by AEC shall provide that for the purpose of the AEC Meeting:

- (a) the securities of AEC for which holders shall be entitled to vote on the Arrangement shall be the AEC Shares and the AEC Options;
- (b) the AEC Shareholders and AEC Optionholders shall be entitled to vote on the Arrangement together, and not as separate classes, with the AEC Shareholders being entitled to one vote for each AEC Share held and the AEC Optionholders being entitled to one vote for each AEC Share issuable pursuant to each AEC Option held; and
- (c) the requisite majority for the approval of the Arrangement by the AEC Shareholders and AEC Optionholders shall be two-thirds of the votes cast by the AEC Shareholders and AEC Optionholders at the AEC Meeting, voting together.

2.3 PanCanadian Meeting

As soon as reasonably practicable after AEC has obtained the Interim Order, and subject to compliance with the terms and conditions contained herein, PanCanadian shall call the PanCanadian Meeting to be held on the same date as the AEC Meeting for the purpose of considering and, if deemed advisable:

- (a) approving by simple majority of the votes cast at the PanCanadian Meeting resolutions approving the following:
 - (i) this Combination Agreement and the issuance of PanCanadian Shares in connection with the Arrangement; and
 - (ii) conditional upon the Arrangement becoming effective, the election of additional members of the Board of Directors of PanCanadian such that the Board of Directors will consist of the persons set out in Schedule D;
- (b) approving by special resolution of at least two-thirds of the votes cast at the PanCanadian Meeting, conditional upon the Arrangement becoming effective, the change of the name of PanCanadian to the name set out in Section 3 of Schedule D (the “Agreed Name”); and
- (c) passing such resolutions as may be required in connection with any amendments involving PanCanadian Option Plans as PanCanadian and AEC may agree are necessary or desirable and which are approved by the PanCanadian Board of Directors.

2.4 AEC Approval

- (a) AEC represents as of the date hereof that its Board of Directors, after considering the Arrangement, has determined unanimously that:
 - (i) the Arrangement is fair to AEC Shareholders and AEC Optionholders and is in the best interests of AEC; and
 - (ii) it will recommend in the Joint Circular that AEC Shareholders and AEC Optionholders vote in favour of the AEC Arrangement Resolution;
- (b) AEC represents as of the date hereof that its Board of Directors has received a written opinion from each of CIBC World Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, financial advisors to AEC, to the effect that the consideration to be received by the AEC Shareholders under the Arrangement is fair to AEC Shareholders from a financial point of view, subject, in each case, to the assumptions and limitations described in such opinions; and
- (c) AEC represents as of the date hereof that its directors and senior officers have advised it that they intend to vote all AEC Shares and AEC Options held by them in favour of the AEC Arrangement Resolution and will, accordingly, so represent in the Joint Circular.

2.5 PanCanadian Approval

- (a) PanCanadian represents as of the date hereof that its Board of Directors, after considering the Arrangement, has determined unanimously that:
 - (i) the participation of PanCanadian in the Arrangement is fair to PanCanadian Shareholders and is in the best interests of PanCanadian; and
 - (ii) it will recommend in the Joint Circular that PanCanadian Shareholders vote in favour of the PanCanadian Combination Resolutions;
- (b) PanCanadian represents as of the date hereof that its Board of Directors has received a written opinion from each of RBC Dominion Securities Inc., a member of RBC Capital Markets, and Credit Suisse First Boston Corporation, financial advisors to PanCanadian, that, in the case of the RBC Dominion Securities Inc. opinion, the Exchange Ratio is fair, from a financial point of view, to PanCanadian Shareholders and that, in the case of the Credit Suisse First Boston Corporation opinion, that the Exchange Ratio is fair to PanCanadian, subject, in each case to the assumptions and limitations described in such opinions; and
- (c) PanCanadian represents as of the date hereof that its directors and senior officers have advised it that they intend to vote all PanCanadian Shares held by them in favour of the PanCanadian Combination Resolutions and will, accordingly, so represent in the Joint Circular.

2.6 Shareholder Rights Plans

Prior to the earlier of the completion of the Arrangement or the termination of this Agreement, neither Party shall amend or terminate its shareholder rights plan or take any other action which would limit the application of its shareholder rights plan to any Acquisition Proposal.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PANCANADIAN

3.1 Representations and Warranties

PanCanadian hereby makes to AEC the representations and warranties as set forth in Schedule B to this Agreement and acknowledges that AEC is relying upon those representations and warranties in connection with entering into this Agreement.

3.2 Investigation

Any investigation by AEC and its advisors shall not mitigate, diminish or affect the representations and warranties of PanCanadian pursuant to this Agreement.

3.3 Survival of Representations and Warranties

The representations and warranties of PanCanadian contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished upon the Arrangement becoming effective.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF AEC

4.1 Representations and Warranties

AEC hereby makes to PanCanadian the representations and warranties as set forth in Schedule C to this Agreement and acknowledges that PanCanadian is relying upon those representations and warranties in connection with entering into this Agreement.

4.2 Investigation

Any investigation by PanCanadian and its advisors shall not mitigate, diminish or affect the representations and warranties of AEC pursuant to this Agreement.

4.3 Survival of Representations and Warranties

The representations and warranties of AEC contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated and extinguished upon the Arrangement becoming effective.

ARTICLE 5

COVENANTS

5.1 Corporate Governance

The Parties agree to use their best efforts to cause the Governance Arrangements set out in Schedule D, including without limitation, the matters contained in Section 3 of Schedule D, to become effective upon the Arrangement becoming effective or immediately thereafter.

5.2 Consultation

PanCanadian and AEC agree to consult with each other in issuing any press releases or otherwise making public statements with respect to this Agreement or the Arrangement and in making any filing with any Governmental Entity or with any stock exchange with respect thereto. Each Party shall use all reasonable commercial efforts to enable the other Party to review and comment on all such press releases prior to the release thereof and to enable the other Party to review and comment on such filings prior to the filing thereof. The Parties agree to issue jointly a press release with respect to this Agreement as soon as practicable, in a form acceptable to both Parties.

5.3 Mutual Covenants

Each of the Parties covenants and agrees that, except as contemplated in this Agreement or the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier:

- (a) except as previously disclosed in writing to, or with the prior written consent of, the other Party hereto, it shall, and shall cause each of its Subsidiaries to, conduct its and their respective businesses only in, and not take any action except in, the usual, ordinary and regular course of business and consistent with past practices;

- (b) except as previously disclosed in writing to the other Party hereto or except in respect of internal transactions involving a Party and its wholly-owned Subsidiaries or among such Subsidiaries, it shall not, without the prior written consent of the other Party hereto, which shall not be unreasonably withheld or delayed, directly or indirectly, including through a Subsidiary, do or permit to occur any of the following:
- (i) issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber (or permit any of its Subsidiaries to issue, sell, pledge, lease, dispose of, encumber or agree to issue, sell, pledge, lease, dispose of or encumber):
 - (A) any shares of, or any options, warrants, calls, conversion privileges or rights of any kind to acquire any shares of it or any of its Subsidiaries, except pursuant to the exercise of stock options currently outstanding or under existing share issuance plans which have been disclosed to the other Party to this Agreement and except for stock options issued to new hires in accordance with past practices and shares issued in respect thereof; or
 - (B) except in the usual, ordinary and regular course of business and consistent with past practice, any material assets of it or any of its Material Subsidiaries;
 - (ii) amend or propose to amend its articles or by-laws or those of any of its Material Subsidiaries;
 - (iii) split, combine or reclassify any of its outstanding shares, or declare, set aside or pay any dividend or other distribution payable in cash, stock, property or otherwise with respect to its shares (other than regular quarterly dividends in the case of PanCanadian, in amounts consistent with past practice and, in the case of AEC, a dividend in the amount of \$0.45 per AEC Share which was declared on January 27, 2002 by the Board of Directors of AEC, or issuances or distributions by Subsidiaries consistent with past practice);
 - (iv) redeem, purchase or offer to purchase (or permit any of its Material Subsidiaries to redeem, purchase or offer to purchase) any shares or other securities of it or any of its Material Subsidiaries, unless otherwise required by the terms of such securities;
 - (v) reorganize, amalgamate or merge it or any of its Material Subsidiaries with any other person, corporation, partnership or other business organization whatsoever;
 - (vi) except in the usual, ordinary and regular course of business and consistent with past practice, acquire, agree to acquire, dispose of or agree to dispose of any person, corporation, partnership, joint venture or other business organization or division or acquire, agree to acquire, dispose of or agree to dispose of any assets, which, in each case, are individually or in the aggregate material;
 - (vii) except in the usual, ordinary and regular course of business and consistent with past practice:
 - (A) satisfy or settle any claims or liabilities which are individually or in the aggregate material;
 - (B) relinquish any contractual rights which are individually or in the aggregate material; or
 - (C) enter into any interest rate, currency or commodity swaps, hedges or other similar financial instruments; or
 - (viii) except in the usual, ordinary and regular course of business and consistent with past practice, and except for the purpose of the renewal of or the replacement of existing credit facilities where such renewal or replacement facilities are for a principal amount approximately the same as or less than the principal amount of the facilities renewed or replaced, incur or commit to provide guarantees, incur any indebtedness for borrowed money or issue any amount of debt securities which are individually or in the aggregate material;
- (c) without the prior written consent of the other Party hereto, which shall not be unreasonably withheld or delayed, it shall not, and shall cause each of its Subsidiaries not to:
- (i) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, enter into or modify any employment, severance, collective bargaining or similar agreements, policies or

arrangements with, or grant any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay to, or make any loan to, any officers or directors of it or any Subsidiary;

- (ii) other than as previously disclosed in writing to the other Party hereto or in the usual, ordinary and regular course of business and consistent with past practice or pursuant to existing employment, pension, supplemental pension, termination, compensation arrangements or policies, in the case of employees of it or any of its Subsidiaries who are not officers or directors, take any action with respect to the entering into or modifying of any employment, severance, collective bargaining or similar agreements, policies or arrangements or with respect to the grant of any bonuses, salary increases, stock options, pension or supplemental pension benefits, profit sharing, retirement allowances, deferred compensation, incentive compensation, severance or termination pay or any other form of compensation or profit sharing or with respect to any increase of benefits payable (AEC consents to the acceleration of vesting of all options under the PanCanadian Option Plan upon the Arrangement becoming effective); or
 - (iii) except as set forth in the Parties' previously approved respective capital budgets (copies of which have been previously provided to the other Party), incur or commit to capital expenditures prior to the Effective Date individually or in the aggregate exceeding \$50 million;
- (d) it shall use its reasonable commercial efforts (taking into account insurance market conditions and offerings and industry practices) to cause its current insurance (or re-insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, except where such cancellation, termination or lapse would not individually or in the aggregate have a material adverse effect, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect;
- (e) it shall:
- (i) use its reasonable commercial efforts, and cause each of its Subsidiaries to use its reasonable commercial efforts, to preserve intact their respective business organizations and goodwill, to keep available the services of its officers and employees as a group and to maintain satisfactory relationships with suppliers, agents, distributors, customers and others having business relationships with it or its Subsidiaries;
 - (ii) not take any action, or permit any of its Subsidiaries to take any action that would interfere with or be inconsistent with the completion of the transactions contemplated hereunder or would render, or that reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue in any material respect at any time prior to the Effective Date if then made (other than a change of recommendation in accordance with Section 5.4 and the communication of such change); and
 - (iii) promptly notify the other Party to this Agreement of any material adverse change, or any change which could reasonably be expected to become a material adverse change, in respect of its or any of its Subsidiaries' businesses or in the operation of its or any of its Subsidiaries' businesses or in the operation of its or any of its Subsidiaries' properties, and of any material Governmental Entity or third party complaints, investigations or hearings (or communications indicating that the same may be contemplated);
- (f) it shall not settle or compromise any claim brought by any present, former or purported holder of any of its securities in connection with the transactions contemplated by this Agreement or the Arrangement prior to the Effective Date without the prior written consent, not to be unreasonably withheld or delayed, of the other Party to this Agreement;

- (g) except in the usual, ordinary and regular course of business and consistent with past practice, or except as previously disclosed in writing to the other Party hereto or as required by applicable Laws, it and its Subsidiaries shall not enter into or modify in any material respect any contract, agreement, commitment or arrangement which new contract or series of related new contracts or modification to an existing contract or series of related existing contracts would be material to a Party hereto or which would have a material adverse effect on a Party hereto;
- (h) it shall use all reasonable commercial efforts to satisfy (or cause the satisfaction of) the conditions precedent to its obligations hereunder set forth in Article 6 to the extent the same is within its control and take, or cause to be taken, all other action and to do, or cause to be done, all other things necessary, proper or advisable under all applicable Laws to complete the Arrangement, including using its reasonable commercial efforts to:
 - (i) obtain all necessary waivers, consents and approvals required to be obtained by it from other parties to loan agreements, leases and other contracts;
 - (ii) obtain all necessary consents, approvals and authorizations as are required to be obtained by it under any applicable Laws;
 - (iii) effect all necessary registrations and filings and submissions of information requested by Governmental Entities required to be effected by it in connection with the Arrangement and participate and appear in any proceedings of either Party before Governmental Entities in connection with the Arrangement;
 - (iv) oppose, lift or rescind any injunction or restraining order or other order or action seeking to stop, or otherwise adversely affecting the ability of the Parties to consummate, the transactions contemplated hereby or by the Arrangement;
 - (v) fulfil all conditions and satisfy all provisions of this Agreement and the Arrangement, including delivery of the certificates of their respective officers contemplated by Section 6.2 and Section 6.3; and
 - (vi) cooperate with the other Party to this Agreement in connection with the performance by it of its obligations hereunder;
- (i) it shall not take any action, refrain from taking any action, or permit any action to be taken or not taken, inconsistent with this Agreement or which would reasonably be expected to significantly impede the consummation of the Arrangement (other than a change of recommendation in accordance with Section 5.4 and the communication of such change);
- (j) subject to the Confidentiality Agreement and Section 5.7, it will, in all material respects, conduct itself so as to keep the other Party to this Agreement fully informed as to the material decisions required to be made or actions required to be taken with respect to the operation of its business, provided that such disclosure is not otherwise prohibited by reason of a confidentiality obligation owed to a third party for which a waiver could not be obtained or is with respect to customer specific or competitively sensitive information relating to areas or projects where PanCanadian and AEC are competitors;
- (k) it shall discuss and consider such Pre-Arrangement Steps as may be proposed by the other Party hereto and implement such Pre-Arrangement Steps that it considers to be in the best interests of its shareholders, provided such steps are agreed to in writing by the other Party hereto;
- (l) it shall make or cooperate as necessary in the making of all necessary filings and applications under all applicable Laws required in connection with the transactions contemplated herein and take all reasonable action necessary to be in compliance with such Laws; and
- (m) it shall use its reasonable commercial efforts to conduct its affairs so that all of its representations and warranties contained herein shall be true and correct in all material respects on and as of the Effective Date as if made thereon.

5.4 Recommendation of Boards of Directors

The Joint Circular shall include the recommendation and representation of the Boards of Directors of each of PanCanadian and AEC to their respective securityholders in respect of the Arrangement as set out in Sections 2.4(a)(ii) and (c) and 2.5(a)(ii) and (c). Notwithstanding any other provision of this Agreement, the Board of Directors of either PanCanadian or AEC may change its recommendation to its securityholders in respect of the Arrangement from that set forth in Sections 2.4 and 2.5, as applicable, if such Board concludes, in good faith, after receiving the advice of outside counsel and financial advisors that is reflected in the minutes of a meeting of the Board, that such action is necessary for such Board to act in a manner consistent with its fiduciary duty or applicable Laws and, in the event that Sections 5.5, 5.6, 8.1 or 8.2 are applicable, if such Party and its Board are in compliance with those sections and such Party has paid any fee applicable under Article 8. The foregoing shall not relieve the Party whose Board of Directors has changed its recommendation from its obligation to proceed to call and hold the AEC Meeting or PanCanadian Meeting, as the case may be, solicit proxies for such meeting and to hold the vote of AEC Shareholders and AEC Optionholders required in the Interim Order or the vote of PanCanadian Shareholders required for the PanCanadian Meeting.

5.5 Mutual Covenant Regarding Non-Solicitation

- (a) Neither PanCanadian nor AEC, nor their respective Subsidiaries shall, directly or indirectly, through any officer, director, employee, representative or agent of PanCanadian or AEC, as the case may be, solicit, initiate, invite or knowingly encourage (including by way of furnishing confidential information or entering into any form of agreement, arrangement or understanding) the initiation of or participate in, any inquiries or proposals regarding an Acquisition Proposal, provided that nothing contained in this Section 5.5 or other provisions of this Agreement shall prevent the Board of Directors of PanCanadian or AEC from considering, negotiating, approving or recommending to its shareholders an agreement in respect of an unsolicited *bona fide* written Acquisition Proposal (i) in respect of which any required financing has been demonstrated to the satisfaction of the Board of Directors of the Party subject to the Acquisition Proposal, acting in good faith, to be reasonably likely to be obtained, (ii) which is not subject to a due diligence access condition which allows access to the books, records and personnel of a Party hereto or any of its Subsidiaries or their representatives beyond 5:00 p.m. (Mountain Standard Time) on the third business day after which access is afforded to the person making the Acquisition Proposal (provided, however, the foregoing shall not restrict the ability of such person to continue to review the information provided); (iii) in respect of which the Board of Directors of the Party subject to the Acquisition Proposal determines (having consulted outside counsel) that in the exercise of its fiduciary duty it would be necessary for such Board of Directors to take such action in order to avoid breaching its fiduciary duties; and (iv) in respect of which the Board of Directors of the Party subject to the Acquisition Proposal determines in good faith, after consultation with financial advisors, if consummated in accordance with its terms, would result in a transaction more favourable to its shareholders than the Arrangement (any such Acquisition Proposal that satisfies clauses (i) through (iv) above being referred to herein as a “Superior Proposal”).
- (b) Subject to the ability of the Parties to carry on business in accordance with Section 5.3, PanCanadian and AEC shall continue to refrain from participating in any discussions or negotiations with any parties (other than the other Party hereto) with respect to any potential Acquisition Proposal. PanCanadian and AEC agree not to release any third party from any confidentiality agreement in respect of an Acquisition Proposal to which such third party is a party. PanCanadian and AEC further agree not to release any third party from any standstill agreement to which such third party is a party, unless such third party has made a Superior Proposal. PanCanadian and AEC shall immediately request the return or destruction of all confidential information provided to any third parties who have previously entered into a confidentiality agreement in respect of an Acquisition Proposal with PanCanadian or AEC, as the case may be, and shall use all reasonable efforts to ensure that such requests are honoured.
- (c) Each of PanCanadian and AEC shall immediately notify the other Party (orally and in writing) of any future Acquisition Proposal of which such Party’s directors or senior officers become aware, or any amendments to the foregoing, or any request for non-public information relating to PanCanadian or AEC, as the case may be, or any of such Party’s Material Subsidiaries in connection with an Acquisition

Proposal or for access to the properties, books or records or for a list of the shareholders of such Party or any Material Subsidiary by any person or entity that informs such Party or such Material Subsidiary that it is considering making an Acquisition Proposal. Such notice shall include a copy of all written communications and a description of the material terms and conditions of any proposal and provide such details of the proposal, inquiry or contact as the other Party hereto may reasonably request, including without limitation the identity of the person and controlling person, if any, making such proposal, inquiry or contact.

- (d) If PanCanadian or AEC receives a request for material non-public information from a person who proposes a *bona fide* Acquisition Proposal in respect of PanCanadian or AEC, and the Board of Directors of such Party determines that such proposal would be a Superior Proposal pursuant to Section 5.5(a), assuming the satisfactory outcome of a due diligence condition which conforms to Section 5.5(a), then, and only in such case, the Board of Directors may, subject to the execution of a confidentiality agreement containing a standstill provision substantially similar to that contained in Article 11 of the Confidentiality Agreement (provided, however, the person making the Acquisition Proposal shall not be precluded thereunder from making the Acquisition Proposal as proposed) and provided such Party sends a copy of any such confidentiality agreement to the other Party immediately upon its execution, only provide such person with access, in accordance with Section 5.5(a) to the same information previously provided to the other Party. The Party providing access shall provide the other Party with a list of the information provided to the person making the Superior Proposal.
- (e) Each Party hereto shall ensure that its directors and officers and its Subsidiaries and any financial advisors or other advisors or representatives retained by it are aware of the provisions of this Section, and it shall be responsible for any breach of this Section 5.5 by its financial advisors or other advisors or representatives.

5.6 Notice of Superior Proposal Determination

Neither PanCanadian nor AEC shall accept, approve or recommend or enter into any agreement (except for a confidentiality agreement pursuant to Section 5.5(d)) in respect of an Acquisition Proposal on the basis that it constitutes a Superior Proposal unless (i) it has provided the other Party hereto with a copy of the Acquisition Proposal document which has been determined to be a Superior Proposal, with such deletions as are necessary to protect confidential portions of such Acquisition Proposal document, provided that the material terms, conditions and the identity of the person, and controlling person, if any, making the Acquisition Proposal may not be deleted; (ii) five (5) business days (the "Notice Period") shall have elapsed from the later of the date the other Party received notice of the determination to accept, approve or recommend an agreement in respect of such Acquisition Proposal, and the date such Party received a copy of the Acquisition Proposal document; (iii) it has paid to the other Party the fee payable under Section 8.1 or 8.2, as the case may be; and (iv) it concurrently terminates this Agreement pursuant to Section 9.1(e) or (f), as the case may be. During the Notice Period, the Party receiving or subject to the Superior Proposal shall provide a reasonable opportunity to the other Party to consider, discuss and offer such adjustments in the terms and conditions of this Agreement as would enable the Party receiving the Superior Proposal to proceed with its recommendation to securityholders with respect to the Arrangement; provided however that any such adjustment shall be at the discretion of the Parties at the time. The Board of Directors of the Party receiving or subject to the Superior Proposal will review in good faith any offer made by the other Party to amend the terms of this Agreement in order to determine, in its discretion, as part of its exercising its fiduciary duties, whether the proposed amendments would, upon acceptance, result in such Superior Proposal ceasing to be a Superior Proposal. If the Board of Directors of the Party determines that the Superior Proposal would cease to be a Superior Proposal, it will so advise the other Party and will accept the offer by the other Party to amend the terms of this Agreement and the Parties agree to take such actions and execute such documents as are necessary to give effect to the foregoing. If the Board of Directors of the Party subject to or receiving the Superior Proposal continues to believe, in good faith and after consultation with financial advisors and outside counsel, that such Superior Proposal remains a Superior Proposal and therefore rejects the amendments offered by the other Party hereto, that Party may, subject to the terms of this Agreement including the payment of applicable fees under Article 8, accept, approve, recommend or enter into an agreement, understanding or arrangement in respect of such Superior Proposal. Each successive

material modification of any Acquisition Proposal or a Superior Proposal shall constitute a new Acquisition Proposal for the purposes of this Section 5.6 and shall require a five (5) business day Notice Period from the date such amendment is communicated to the other Party hereto (other than an amendment to improve upon a Superior Proposal in respect of which the other Party has been provided with an opportunity to amend the terms of this Agreement and such Superior Proposal has not ceased to be a Superior Proposal prior to the proposed amendment). Information provided hereunder shall constitute Confidential Information under the Confidentiality Agreement.

5.7 Access to Information

Subject to the Confidentiality Agreement and applicable Laws, upon reasonable notice, AEC shall (and shall cause each of its Subsidiaries to) afford the officers, employees, counsel, accountants and other authorized representatives and advisors (“Representatives”) of PanCanadian access, during normal business hours from the date hereof and until the earlier of the Effective Date or the termination of this Agreement, to its properties, books, contracts and records as well as to its management personnel, and, during such period, AEC shall (and shall cause each of its Subsidiaries to) furnish promptly to PanCanadian all information concerning its business, properties and personnel as PanCanadian may reasonably request. Subject to the Confidentiality Agreement and applicable Laws, upon reasonable notice, PanCanadian shall (and shall cause each of its Subsidiaries to) provide the same access to AEC and its Representatives on the same terms and conditions. Nothing in the foregoing shall require PanCanadian or AEC to disclose information subject to a written confidentiality agreement with third parties or competitively sensitive information relating to areas or projects where PanCanadian and AEC are competitors. For greater certainty, until the earlier of the Effective Date and the termination of this Agreement, access to and exchange of competitively sensitive confidential information (“Confidential Data”) as between the Parties shall be limited to that which is reasonably necessary for the purposes of securing all necessary regulatory approvals, the preparation and settlement of definitive documents and the advancement of the Arrangement as contemplated herein and shall be further limited such that the dissemination of such Confidential Data shall be confined to those representatives of the Parties and their advisors who have a need to know such information for these purposes and who agree to respect such confidentiality in their dealings with such Confidential Data. In particular, with reference to access to and the sharing of Confidential Data of one Party with representatives of the other Party for the purposes of preparing any filings or submissions under the Competition Act and the HSR Act in respect of the Arrangement, the general principle which shall be applied is that such information shall be made available to, exchanged or shared with counsel to the Parties rather than the Parties or their representatives.

5.8 Covenants of AEC

AEC covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

- (a) in a timely and expeditious manner, file, proceed with and diligently prosecute an application to the Court for the Interim Order with respect to the Arrangement, provided that notwithstanding the foregoing, the Parties agree to consult regarding seeking the Interim Order and mailing the Joint Circular;
- (b) in a timely and expeditious manner:
 - (i) forthwith carry out the terms of the Interim Order;
 - (ii) prepare, in consultation with PanCanadian, and file the Joint Circular in all jurisdictions where the same is required to be filed and mail the same as ordered by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and AEC and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;
 - (iii) solicit proxies for the approval of the AEC Arrangement Resolution in accordance with the Joint Circular and the Interim Order;

- (iv) convene the AEC Meeting and distribute copies of this Agreement (or a written summary thereof prepared by AEC in form and substance satisfactory to PanCanadian acting reasonably), in each case as ordered by the Interim Order; and
- (v) provide notice to PanCanadian of the AEC Meeting and allow PanCanadian's representatives to attend the AEC Meeting unless such attendance is prohibited by the Interim Order; and
- (vi) conduct the AEC Meeting in accordance with the Interim Order, the by-laws of AEC and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws;
- (c) in a timely and expeditious manner, prepare (in consultation with PanCanadian) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Circular with respect to the AEC Meeting and mail the same as required by the Interim Order and in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;
- (d) subject to the approval of the Arrangement at the AEC Meeting in accordance with the provisions of the Interim Order and subject to Article 6, forthwith proceed with and diligently prosecute an application for the Final Order;
- (e) forthwith carry out the terms of the Final Order (to the extent within its power) and, subject to the receipt of the Final Order, the satisfaction of the conditions precedent in favour of AEC and the receipt of the written confirmation of PanCanadian that the conditions precedent in favour of PanCanadian have been satisfied, file Articles of Arrangement and the Final Order with the Registrar in order for the Arrangement to become effective;
- (f) except for individual proxies and other non-substantive communications, furnish promptly to PanCanadian a copy of each notice, report, report of proxies submitted, schedule or other document or communication delivered, filed or received by AEC in connection with the Arrangement or the Interim Order, the AEC Meeting or any other meeting of AEC security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;
- (g) subject to Section 5.7, in a timely and expeditious manner, provide to PanCanadian all information as may be reasonably requested by PanCanadian or as required by the Interim Order or applicable Laws with respect to AEC and its Subsidiaries and their respective businesses and properties; and
- (h) assist and cooperate in the preparation and filing with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States of all necessary applications to seek exemptions, if required, from the prospectus, registration and other requirements of the applicable securities Laws of Canada and the United States for the issue by PanCanadian of PanCanadian Shares and PanCanadian Substitute Options pursuant to the terms of the Plan of Arrangement and the resale of such PanCanadian Shares and the PanCanadian Shares obtained upon the exercise of such PanCanadian Substitute Options (other than by control persons and affiliates and subject to requirements of general application).

AEC covenants and agrees that it will enter into a supplemental indenture in a form satisfactory to PanCanadian, acting reasonably, with respect to its 8.50% capital securities and 8.38% capital securities providing for the surrender of AEC's rights to issue AEC Shares to holders of such securities, such supplemental indenture to be effective prior to the filing of the Articles of Arrangement.

5.9 Covenants of PanCanadian

PanCanadian covenants and agrees that, except as contemplated in this Agreement or pursuant to the Arrangement, until the Effective Date or the day upon which this Agreement is terminated, whichever is earlier, it will:

- (a) in a timely and expeditious manner:
 - (i) prepare, in consultation with AEC, and file the Joint Circular in all jurisdictions where the same is required to be filed and mail the same in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable Laws on the date of mailing thereof and containing full, true and plain disclosure of all material facts relating to the Arrangement and PanCanadian and not containing any misrepresentation, as defined under such applicable Laws, with respect thereto;
 - (ii) solicit proxies for the approval of the PanCanadian Combination Resolutions;
 - (iii) convene the PanCanadian Meeting;
 - (iv) provide notice to AEC of the PanCanadian Meeting and allow AEC's representatives to attend the PanCanadian Meeting; and
 - (v) conduct the PanCanadian Meeting in accordance with the by-laws of PanCanadian and any instrument governing such meeting, as applicable, and as otherwise required by applicable Laws, subject to any order of the Court in respect of the foregoing;
- (b) in a timely and expeditious manner, prepare (in consultation with AEC) and file any mutually agreed (or otherwise required by applicable Laws) amendments or supplements to the Joint Circular with respect to the PanCanadian Meeting and mail the same in accordance with all applicable Laws, in all jurisdictions where the same is required, complying in all material respects with all applicable legal requirements on the date of mailing thereof;
- (c) subject to the approval of the PanCanadian Combination Resolutions contemplated in Section 2.3(a) at the PanCanadian Meeting, assist and cooperate in the preparation of the application for the Final Order;
- (d) except for individual proxies and other non-substantive communications, furnish promptly to AEC a copy of each notice, report, report of proxies submitted, schedule or other document or communication delivered, filed or received by PanCanadian in connection with the Arrangement, the PanCanadian Meeting or any other meeting of PanCanadian security holders or class of security holders which all such holders, as the case may be, are entitled to attend, any filings under applicable Laws and any dealings with regulatory agencies in connection with, or in any way affecting, the transactions contemplated herein;
- (e) subject to Section 5.7, in a timely and expeditious manner, provide to AEC all information as may be reasonably requested by AEC or as required by the Interim Order or applicable Laws with respect to PanCanadian and its Subsidiaries and their respective businesses and properties;
- (f) cause ArrangeCo to take all steps to be taken by ArrangeCo to effect the Arrangement;
- (g) prepare and file with all applicable securities commissions or similar securities regulatory authorities of Canada and the United States all necessary applications to seek exemptions if required by applicable securities Laws or this Agreement, from the prospectus, registration and other requirements of the applicable securities Laws of Canada and the United States for the issue by PanCanadian of PanCanadian Shares and PanCanadian Substitute Options pursuant to the terms of the Plan of Arrangement and the resale of such PanCanadian Shares and the PanCanadian Shares obtained upon the exercise of such PanCanadian Substitute Options (other than by control persons and affiliates and subject to requirements of general application);
- (h) prepare and file with respect to the exercise of AEC Options as converted into PanCanadian Substitute Options in accordance with the terms of the Arrangement, and the resale of PanCanadian Shares

issuable upon the exercise of such options, by AEC Optionholders who are United States citizens or residents, a registration statement on Form S-8 covering such transactions (the "Registration Statement") under the Securities Act of 1933, as amended, prior to the Effective Date;

- (i) apply for and use all reasonable efforts to obtain the listing on The Toronto Stock Exchange and the New York Stock Exchange, as of the Effective Date, of the PanCanadian Shares which are issued pursuant to the Arrangement and issuable pursuant to the PanCanadian Substitute Options;
- (j) issue the PanCanadian Shares, in accordance with the terms of the Plan of Arrangement, to those AEC Shareholders who are entitled to receive PanCanadian Shares pursuant to the Arrangement, which PanCanadian Shares shall be validly issued as fully paid and non-assessable shares; and
- (k) assume, in accordance with the terms of the Plan of Arrangement, the obligations of AEC under the AEC Options as converted into PanCanadian Substitute Options in accordance with the terms of the Plan of Arrangement.

5.10 Indemnification of Directors and Officers, Corporate Indemnities and Insurance

- (a) For a period of ten years after the Effective Date, AEC shall and PanCanadian shall cause AEC to
 - (i) maintain in effect the current or substantially similar (subject to any changes required by applicable Laws in the jurisdiction in which AEC may exist from time to time) provisions regarding indemnification of officers and directors contained in the constating documents of AEC and its Subsidiaries and any directors', officers' or employees' indemnification agreements of AEC and its Subsidiaries;
 - (ii) maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by AEC and its Subsidiaries (provided that PanCanadian may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, not materially less advantageous to the insured) with respect to claims arising from facts or events which occurred on or before the Effective Date; and
 - (iii) indemnify the directors and officers of AEC and its Subsidiaries to the fullest extent to which AEC and its Subsidiaries are permitted to indemnify such officers and directors under its articles and bylaws and applicable Laws in the jurisdiction in which AEC may continue to exist from time to time.PanCanadian shall unconditionally and irrevocably guarantee for the benefit of such directors, officers and employees, the obligations of AEC and its Subsidiaries under the foregoing indemnification arrangements.
- (b) For a period of ten years after the Effective Date, PanCanadian shall
 - (i) maintain in effect the current or substantially similar (subject to any changes required by applicable Laws in the jurisdiction in which PanCanadian may exist from time to time) provisions regarding indemnification of officers and directors contained in the constating documents of PanCanadian and its Subsidiaries and any directors', officers' or employees' indemnification agreements of PanCanadian and its Subsidiaries;
 - (ii) maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by PanCanadian and its Subsidiaries (provided that PanCanadian may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, not materially less advantageous to the insured) with respect to claims arising from facts or events which occurred on or before the Effective Date; (iii) indemnify the directors and officers of PanCanadian and its Subsidiaries to the fullest extent to which PanCanadian and its Subsidiaries are permitted to indemnify such officers and directors under its articles and bylaws and applicable Laws in the jurisdiction in which PanCanadian may continue to exist from time to time; and
 - (iv) unconditionally and irrevocably guarantee for the benefit of such directors, officers and employees, the obligations of its Subsidiaries under the foregoing indemnification arrangements.
- (c) The provisions of this Section 5.10 are (i) for the benefit of, and shall be enforceable by, each indemnified party, his heirs, executors, administrators and other legal representatives; and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such person may have by contract or otherwise, and such rights shall be held by AEC or PanCanadian, as the case may be, in trust for such person provided however that no approval of any beneficiary of

such trust shall be required in connection with an amendment or variation of this Section 5.10 prior to the Effective Date.

- (d) Notwithstanding the foregoing, this Section 5.10 shall not restrict or prohibit PanCanadian or AEC from entering into any transaction subsequent to the Effective Date, including a merger, amalgamation, arrangement, dissolution, liquidation, reorganization of capital or sale of all or substantially all of the assets of PanCanadian or AEC or a Subsidiary of either of them to another entity, causing PanCanadian, AEC or a Subsidiary of either of them to assume the liabilities of another entity or otherwise reorganizing or restructuring PanCanadian, AEC or a Subsidiary of either of them or their respective businesses.

5.11 Merger of Covenants

The covenants set out in this Agreement, except for Section 5.10 and Article 10 (other than Section 10.5), shall not survive the completion of the Arrangement, and shall expire and be terminated without recourse between the Parties upon such completion.

ARTICLE 6 CONDITIONS

6.1 Mutual Conditions

The obligations of AEC and PanCanadian to complete the transactions contemplated hereby are subject to fulfillment of the following conditions on or before the Effective Date or such other time as is specified below:

- (a) the Interim Order shall have been granted in form and substance satisfactory to AEC and PanCanadian, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- (b) the AEC Arrangement Resolution set forth in the Joint Circular shall have been passed at the AEC Meeting, in accordance with the Interim Order;
- (c) the PanCanadian Combination Resolutions contemplated in Section 2.3(a) shall have been passed at the PanCanadian Meeting;
- (d) the Final Order shall have been granted in form and substance satisfactory to AEC and PanCanadian, acting reasonably, and shall not have been set aside or modified in a manner unacceptable to such Parties, acting reasonably, on appeal or otherwise;
- (e) the Effective Date shall be on or before July 31, 2002, subject to any extension of up to thirty (30) days from July 31, 2002, available to a Party pursuant to Section 6.4;
- (f) there shall be no action taken under any Laws or by any Governmental Entity, that:
 - (i) makes illegal or otherwise directly or indirectly restrains, enjoins or prohibits the Arrangement or any other transactions or agreements contemplated herein; or
 - (ii) results in a judgment or assessment of damages, directly or indirectly, which is materially adverse to the transactions or agreements contemplated herein;
- (g) the relevant waiting period in section 123 of the Competition Act shall have expired and (i) an advance ruling certificate ("ARC") pursuant to section 102 of the Competition Act shall have been issued by the Commissioner of the Competition Bureau ("Commissioner") appointed under the Competition Act; or (ii) a "no action letter" satisfactory to PanCanadian and AEC, acting reasonably, indicating that the Commissioner has determined not to make an application for an order under section 92 of the Competition Act shall have been received from the Commissioner, and any terms and conditions attached to any such letter shall be acceptable to PanCanadian and AEC, acting reasonably; and in addition, in the event that the ARC or "no action" letter described in (i) or (ii) in the foregoing is issued, there shall be no threatened or actual application by the Commissioner for an order under section 92 or 100 of the Competition Act;

- (h) all relevant waiting periods under the HSR Act shall have expired or have been earlier terminated;
- (i) all other consents, waivers, permits, orders and approvals of any Governmental Entity (other than as contemplated in Section 6.1(g) or 6.1(h)) or other person, and the expiry or termination of any waiting periods, in connection with, or required to permit, the consummation of the Arrangement, the failure of which to obtain or the non-expiry of which would be materially adverse to PanCanadian or AEC, as the case may be, or materially impede the completion of the Arrangement, shall have been obtained, received or occurred on terms that will not have a material adverse effect on either PanCanadian or AEC and reasonably satisfactory evidence thereof shall have been delivered to each Party;
- (j) The Toronto Stock Exchange and the New York Stock Exchange shall have conditionally approved for listing, subject to compliance with the usual requirements of such exchanges, the PanCanadian Shares issuable pursuant to the terms of the Plan of Arrangement and pursuant to the PanCanadian Substitute Options as converted in accordance with the terms of the Plan of Arrangement;
- (k) PanCanadian and AEC shall have each received a legal opinion from United States counsel to PanCanadian and United States counsel to AEC in connection with the Arrangement, each in form and substance satisfactory to PanCanadian and to AEC, acting reasonably, to the effect that, assuming compliance with the procedures specified in such legal opinions, the issuance of PanCanadian Shares and PanCanadian Substitute Options pursuant to the terms of the Plan of Arrangement are exempt from the registration requirements of the United States *Securities Act of 1933*, as amended;
- (l) any required prospectus exemptions under Canadian federal or provincial securities Laws and any required registration exemptions under state securities Laws shall have been obtained or perfected or be otherwise available so that the PanCanadian Shares and PanCanadian Substitute Options issuable pursuant to the terms of the Plan of Arrangement shall not be subject to any prospectus or registration requirements or resale restrictions under any of such securities Laws, other than such requirements or restrictions in respect of control persons or affiliates and subject to requirements of general application;
- (m) both PanCanadian and AEC shall be satisfied, acting reasonably, that the tax consequences and tax related obligations for PanCanadian as a result of the completion of the Arrangement would not reasonably be expected to result in a material adverse effect on PanCanadian after the Arrangement has become effective; and
- (n) the Registration Statement shall have been declared or become effective under the United States *Securities Act of 1933*, as amended, on or before the Effective Date, and such Registration Statement, at its effective date and on the Effective Date, shall not be the subject of a U.S. Securities Exchange Commission (the "SEC") stop-order or SEC proceedings seeking a stop-order.

The foregoing conditions are for the mutual benefit of AEC and PanCanadian and may be waived, in whole or in part, in writing by both AEC and PanCanadian at any time. If any of the said conditions precedent shall not be complied with or waived in writing as aforesaid on or before the date required for the performance thereof, either AEC or PanCanadian may rescind and terminate this Agreement by written notice to the other Party (provided such non-compliance did not arise from the acts or omissions of the Party purporting to rescind and terminate this Agreement) and shall have no other right or remedy, except as set forth in Article 8 or 9.

6.2 AEC Conditions

The obligation of AEC to complete the transactions contemplated herein is subject to the fulfillment of the following conditions on or before the Effective Date or such other time as specified below:

- (a) the representations and warranties made by PanCanadian in this Agreement shall, in the reasonable judgment of AEC, be true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have, or would not reasonably be expected to have, a material adverse effect on PanCanadian or materially

impede the completion of the Arrangement or the transactions contemplated by this Agreement), and PanCanadian shall have provided to AEC the certificate of two senior officers of PanCanadian certifying such accuracy on the Effective Date;

- (b) PanCanadian shall have complied with its covenants herein, except to the extent the failure, in the reasonable judgment of AEC, to comply with such covenants has not had, or would not reasonably be expected to have, individually or in the aggregate a material adverse effect on PanCanadian or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement, and PanCanadian shall have provided to AEC the certificate of two senior officers of PanCanadian certifying that PanCanadian has so complied with its covenants herein;
- (c) from the date hereof and up to and including the Effective Date, there shall have been no change, effect, event, occurrence or change in state of facts which has had or, in the reasonable judgment of AEC has or would reasonably be expected to have, a material adverse effect on PanCanadian; and
- (d) no person, nor any group of persons acting jointly or in concert, shall have acquired beneficial ownership as determined under the PanCanadian Shareholder Rights Plan of 20% or more of the outstanding PanCanadian Shares.

The foregoing conditions precedent are for the benefit of AEC and may be waived, in whole or in part, by AEC in writing at any time. If any of the said conditions shall not be complied with or waived in writing by AEC on or before the date required for their performance and provided such non-compliance did not arise from the acts or omissions of AEC, then AEC may rescind and terminate this Agreement by written notice to PanCanadian and shall have no other right or remedy against PanCanadian, except as set forth in Article 8 or 9.

6.3 PanCanadian Conditions

The obligation of PanCanadian to complete the transactions contemplated herein is subject to the fulfillment of the following conditions on or before the Effective Date or such other time as specified below:

- (a) the representations and warranties made by AEC in this Agreement shall be, in the reasonable judgment of PanCanadian, true and correct as of the Effective Date as if made on and as of such date (except to the extent such representations and warranties speak as of an earlier date or except as affected by transactions contemplated or permitted by this Agreement or except for any failures or breaches of representations and warranties which individually or in the aggregate would not have, or would not reasonably be expected to have, a material adverse effect on AEC or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement), and AEC shall have provided to PanCanadian the certificate of two senior officers of AEC certifying such accuracy on the Effective Date;
- (b) AEC shall have complied with its covenants herein, except to the extent the failure, in the reasonable judgment of PanCanadian, to comply with such covenants has not had, or would not reasonably be expected to have, individually or in the aggregate a material adverse effect on AEC or materially impede the completion of the Arrangement or the transactions contemplated by this Agreement, and AEC shall have provided to PanCanadian the certificate of two senior officers of AEC certifying that AEC has so complied with its covenants herein;
- (c) from the date hereof and up to and including the Effective Date, there shall have been no change, effect, event, occurrence or change in state of facts which has had or in the reasonable judgment of PanCanadian has or would reasonably be expected to have, a material adverse effect on AEC; and
- (d) no person, nor any group of persons acting jointly or in concert, shall have acquired beneficial ownership as determined under the AEC Shareholder Rights Plan of 20% or more of the outstanding AEC Shares.

The foregoing conditions precedent are for the benefit of PanCanadian and may be waived, in whole or in part, by PanCanadian in writing at any time. If any of the said conditions shall not be complied with or waived in writing by PanCanadian on or before the date required for their performance and provided such non-compliance did not arise from the acts or omissions of PanCanadian, then PanCanadian may rescind and terminate this Agreement by written notice to AEC and shall have no other right or remedy against AEC, except as set forth in Article 8 or 9.

6.4 Notice and Cure Provisions

Each of AEC and PanCanadian will give prompt notice to the other of the occurrence, or failure to occur, at any time from the date hereof until the Effective Date, of any event or state of facts which occurrence or failure would, or would be likely to:

- (a) cause any of the representations or warranties of any Party contained herein to be untrue or inaccurate in any material respect on the date hereof; or
- (b) result in the failure to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by any Party hereunder.

No Party may elect not to complete the transactions contemplated hereby pursuant to the non-fulfillment of the conditions precedent contained in Sections 6.1, 6.2 and 6.3 or any termination right arising therefrom and no payments are payable pursuant to Sections 8.1 or 8.2 as a result of such election unless forthwith and in any event prior to the filing of the Articles of Arrangement for acceptance by the Registrar, the Party intending to rely thereon has delivered a written notice to the other Party specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Party delivering such notice is asserting as the basis for the non-fulfillment of the applicable condition precedent or termination right, as the case may be. If any such notice is delivered, provided that a Party is proceeding diligently to cure such matter and such matter is capable of being cured (except matters arising out of the failure to make appropriate disclosure in the disclosure memoranda delivered on the date of execution of this Agreement pursuant to Section 1.11 hereof) no Party may terminate this Agreement until the later of July 31, 2002 and the expiration of a period of thirty (30) days from such notice and then only if such matter is not cured in all material respects. If such notice has been delivered prior to the date of the PanCanadian Meeting and the AEC Meeting, such meetings shall be postponed until the expiry of such period. If such notice has been delivered prior to the making of the application for the Final Order or the filing of the Articles of Arrangement with the Registrar, such application and such filing shall be postponed until the expiry of such period.

6.5 Merger of Conditions

The conditions set out in Sections 6.1, 6.2 and 6.3 shall be conclusively deemed to have been satisfied, waived or released upon the filing of Articles of Arrangement as contemplated by this Agreement. Notwithstanding the foregoing, the covenants set forth in Section 5.10 and Article 10 (other than Section 10.5) shall survive the filing of Articles of Arrangement, as contemplated by this Agreement.

ARTICLE 7 AMENDMENT

7.1 Amendment

This Agreement and the Plan of Arrangement may, at any time and from time to time before or after the holding of the PanCanadian and AEC Meetings, be amended by mutual written agreement of the Parties hereto without further notice to or authorization on the part of their respective shareholders, and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the Parties;
- (b) waive any inaccuracies or modify any representation contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants herein contained and waive or modify performance of any of the obligations of the Parties; and
- (d) waive compliance with or modify any conditions precedent herein contained;

provided that: (i) notwithstanding the foregoing, following the approval of the AEC Arrangement Resolution, the number of PanCanadian Shares which the AEC Shareholders shall have the right to receive in the Arrangement may not be decreased without the further approval of the AEC Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court; (ii) notwithstanding

the foregoing, following the approval of the PanCanadian Combination Resolutions contemplated in Section 2.3(a), the number of PanCanadian Shares which the AEC Shareholders shall have the right to receive in the Arrangement may not be increased without the further approval of the PanCanadian Shareholders given in the same manner as required for the approval of the Arrangement or as may be ordered by the Court and (iii) any such change, waiver or modification does not invalidate any required securityholder approval of the Arrangement.

ARTICLE 8

AGREEMENT AS TO COMPENSATION AND OTHER ARRANGEMENTS

8.1 PanCanadian Compensation

- (a) If at any time after the execution of this Agreement:
- (i) the Board of Directors of AEC has withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.4(a) in a manner adverse to PanCanadian or shall have resolved to do so prior to the Effective Date;
 - (ii) a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the AEC Shareholders or to AEC, and (A) such Acquisition Proposal has not expired or been withdrawn at the time of the AEC Meeting, (B) the AEC Shareholders do not approve the Arrangement and (C) such Acquisition Proposal, an amended version thereof, a competing Acquisition Proposal or an Acquisition Proposal solicited in response to the foregoing, is consummated within 12 months of the termination of this Agreement; or
 - (iii) AEC breaches any of its representations, warranties or covenants made in this Agreement in respect of which notice has been given under Section 6.4 and such breach has not been cured within the period referred to in such section and which would individually or in the aggregate have a material adverse effect on AEC or materially impede the completion of the Arrangement, including, without limitation, the representations and covenants in Section 2.4 and 2.6;
- (each of the above being a “PanCanadian Payment Event”), then AEC shall pay to PanCanadian \$350 million as liquidated damages in immediately available funds to an account designated by PanCanadian within three business days after any one of Section 8.1(a)(i), (ii) or (iii) being satisfied.
- (b) Notwithstanding anything to the contrary contained herein, if a payment has been made under any of Section 8.1(a)(i),(ii) or (iii) above, no further payment shall be required under Section 8.1 (a)(i), (ii) or (iii).

8.2 AEC Compensation

- (a) If at any time after the execution of this Agreement:
- (i) the Board of Directors of PanCanadian has withdrawn, qualified or changed any of its recommendations or determinations referred to in Section 2.5(a) in a manner adverse to AEC or shall have resolved to do so prior to the Effective Date;
 - (ii) a *bona fide* Acquisition Proposal is publicly announced, proposed, offered or made to the PanCanadian Shareholders or to PanCanadian, and (A) such Acquisition Proposal has not expired or been withdrawn at the time of the PanCanadian Meeting, (B) the PanCanadian Shareholders do not approve the PanCanadian Combination Resolutions (other than the resolutions in respect of the change of name of PanCanadian and the cancellation and exchange of options) and (C) such Acquisition Proposal, an amended version thereof, a competing Acquisition Proposal or an Acquisition Proposal solicited in response to the foregoing, is consummated within 12 months of the termination of this Agreement; or
 - (iii) PanCanadian breaches any of its representations, warranties or covenants made in this Agreement in respect of which notice has been given under Section 6.4 and such breach has not been cured within the period referred to in such section and which would individually or in the aggregate have

a material adverse effect on PanCanadian or materially impede the completion of the Arrangement, including, without limitation, the representations and covenants in Section 2.5 and 2.6;

(each of the above being a “AEC Payment Event”), then PanCanadian shall pay to AEC \$350 million as liquidated damages in immediately available funds to an account designated by AEC within three business days after any one of Section 8.2(a)(i), (ii) or (iii) being satisfied.

- (b) Notwithstanding anything to the contrary contained herein, if a payment has been made under any of Section 8.2(a)(i),(ii) or (iii) above, no further payment shall be required under Section 8.2(a)(i), (ii) or (iii).

8.3 Liquidated Damages

Each Party acknowledges that the amounts set out in this Article 8 represent liquidated damages which are a genuine pre-estimate of the damages, including opportunity costs, which the Party entitled to such damages will suffer or incur as a result of the event (subject to Section 6.4) giving rise to such damages and resultant termination of this Agreement, and are not penalties. Each Party irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive.

8.4 Limited Remedy

For greater certainty, the Parties agree that the compensation or damages to be received pursuant to this Article 8 is the sole remedy in compensation or damages of the party receiving such payment; provided however that nothing contained in this Article 8 or Section 9.1, including the payment of an amount under this Article 8 shall relieve or have the effect of relieving any Party in any way from liability for damages incurred or suffered by a Party as a result of a breach of this Agreement by a Party acting in bad faith with a clear intent and design to prevent the conditions precedent to this Agreement’s completion from being satisfied. Nothing herein shall preclude a Party from seeking injunctive relief to restrain any breach or threatened breach of the covenants or agreements set forth in this Agreement or the Confidentiality Agreement or otherwise to obtain specific performance of any of such act, covenants or agreements, without the necessity of posting bond or security in connection therewith.

ARTICLE 9 **TERMINATION**

9.1 Termination

This Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of PanCanadian and AEC;
- (b) as provided in Sections 6.1, 6.2 and 6.3, subject to the right to cure pursuant to Section 6.4;
- (c) by PanCanadian upon the occurrence of a PanCanadian Payment Event as provided in Section 8.1;
- (d) by AEC upon the occurrence of a AEC Payment Event as provided in Section 8.2;
- (e) by PanCanadian upon the acceptance of an Acquisition Proposal pursuant to, and in accordance with, Sections 5.5 and 5.6 (and provided payment of the applicable amounts under Section 8.2(a) to AEC have been made);
- (f) by AEC upon the acceptance of an Acquisition Proposal pursuant to, and in accordance with, Sections 5.5 and 5.6 (and provided payment of the applicable amounts under Section 8.1(a) to PanCanadian have been made); and
- (g) by either PanCanadian or AEC if: (i) at the PanCanadian Meeting the requisite vote of PanCanadian Shareholders in respect of the PanCanadian Combination Resolutions contemplated in Section 2.3(a) is not obtained; (ii) at the AEC Meeting the requisite vote of AEC Shareholders and AEC Optionholders is not obtained; or (iii) if approval of the Court of the Final Order is not obtained.

In the event of the termination of this Agreement in the circumstances set out in any of paragraphs (a) through (g) of this Section 9.1, this Agreement shall forthwith be terminated and neither Party shall have any liability or further obligation to the other Party hereunder, except with respect to the obligations set forth in Article 8 and Article 10 (other than Section 10.5) which shall survive such termination. In the event of termination of this Agreement, the Arrangement and Plan of Arrangement shall be terminated without any PanCanadian Shares or PanCanadian Substitute Options being issued.

ARTICLE 10

GENERAL

10.1 Expenses

- (a) The Parties agree that, except in the event of the termination of this Agreement, all out-of-pocket third party transaction expenses of the Arrangement, including legal fees, regulatory filing fees, all disbursements by advisors and printing and mailing costs, shall be paid by the Party incurring such expenses. If this Agreement is terminated, PanCanadian and AEC agree to share equally the fees for financial advisors, the fees reasonably incurred for strategic advisors (provided that such fees or retainers are previously approved in writing by the other Party hereto) the printing and mailing expenses in respect of the Joint Circular, and filing fees in respect of the Competition Act and the HSR Act.
- (b) PanCanadian and AEC represent and warrant to each other that, except for RBC Dominion Securities Inc., a member company of RBC Capital Markets, and Credit Suisse First Boston Corporation in the case of PanCanadian, and CIBC World Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in the case of AEC and strategic advisors that may be retained by either PanCanadian or AEC, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the Arrangement. Each Party to this Agreement has provided to the other Party a correct and complete copy of all agreements relating to the arrangement between it and its financial advisors as are in existence at the date hereof and agrees not to amend the terms of any such agreements relating to the payment of fees and expenses or enter into an engagement letter with any strategic advisor without the prior written approval of the other Party of the fees and expenses to be incurred.

10.2 Notices

Any notice, consent, waiver, direction or other communication required or permitted to be given under this Agreement by a Party to any other Party shall be in writing and may be given by delivering same or sending same by facsimile transmission or by delivery addressed to the Party to which the notice is to be given at its address for service herein. Any notice, consent, waiver, direction or other communication aforesaid shall, if delivered, be deemed to have been given and received on the date on which it was delivered to the address provided herein (if a business day, if not, the next succeeding business day) and if sent by facsimile transmission be deemed to have been given and received at the time of receipt unless actually received after 4:00 p.m. at the point of delivery in which case it shall be deemed to have been given and received on the next business day.

The address for service of each of the parties hereto shall be as follows:

- (a) if to PanCanadian:

PanCanadian Energy Corporation
PanCanadian Energy Plaza
150 - 9th Avenue S.W.
P.O. Box 2850
Calgary, Alberta T2P 2S5

Attention: Corporate Secretary
Fax: (403) 290-3302

with a copy to:

Attention: Michael A. Grandin, President
Fax: (403) 290-3314

(b) if to AEC:

Alberta Energy Company Ltd.
3900, 421 - 7th Avenue S.W.
Calgary, Alberta T2P 4K9

Attention: Corporate Secretary
Fax: (403) 231-3687

with a copy to:

Attention: John D. Watson, Vice-President, Finance and Chief Financial Officer
Fax: (403) 266-8100

10.3 Time of Essence

Time shall be of the essence in this Agreement.

10.4 Entire Agreement

This Agreement and the Confidentiality Agreement constitute the entire agreement between the Parties and cancel and supersede all prior agreements and understandings between the Parties with respect to the subject matter hereof. To the extent that provisions of the Confidentiality Agreement conflict with provisions of this Agreement, the provisions of this Agreement shall govern. The Board of Directors of each of the Parties hereby consents under Section 11.1 of the Confidentiality Agreement (for so long as this Agreement remains in effect and has not been terminated) to the actions of the other taken to consummate the Arrangement and the transactions contemplated thereby or action taken to propose amendments thereto under Section 5.6 of this Agreement. The Parties hereby amend the Confidentiality Agreement such that the Confidentiality Agreement shall terminate upon the Arrangement becoming effective or at the end of the 12th calendar month following the termination of this Agreement, whichever is first to occur and the exclusivity provisions of the Confidentiality Agreement contained in Article 3 thereof are hereby terminated.

10.5 ArrangeCo

PanCanadian hereby represents, warrants and covenants in favour of AEC as follows: (i) ArrangeCo will be incorporated as soon as possible following execution hereof and will have directors, officers, share capital and by-laws similar to those previously provided to AEC; and (ii) following its incorporation, PanCanadian shall cause ArrangeCo to take all actions required to be taken by ArrangeCo to give effect to the Arrangement and shall cause ArrangeCo to refrain from taking any other actions unless previously consented to in writing by AEC.

10.6 Further Assurances

Each Party hereto shall, from time to time, and at all times hereafter, at the request of the other Party hereto, but without further consideration, do all such further acts and execute and deliver all such further documents and instruments as shall be reasonably required in order to fully perform and carry out the terms and intent hereof.

10.7 Governing Law

This Agreement shall be governed by, and be construed in accordance with, the laws of the Province of Alberta and the laws of Canada applicable therein. Each Party hereto hereby irrevocably attorns to the exclusive jurisdiction of the Courts of the Province of Alberta in respect of all matters arising under or in relation to this Agreement.

10.8 Execution in Counterparts

This Agreement may be executed in identical counterparts, each of which is and is hereby conclusively deemed to be an original and the counterparts collectively are to be conclusively deemed to be one instrument.

10.9 Waiver

No waiver by any Party hereto shall be effective unless in writing and any waiver shall affect only the matter, and the occurrence thereof, specifically identified and shall not extend to any other matter or occurrence.

10.10 Enurement and Assignment

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by any Party hereto without the prior written consent of the other Party hereto.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

PANCANADIAN ENERGY CORPORATION

Per: "MICHAEL A. GRANDIN"
Name: Michael A. Grandin
Title: President

Per: "WESLEY R. TWISS"
Name: Wesley R. Twiss
Title: Executive Vice President &
Chief Financial Officer

ALBERTA ENERGY COMPANY LTD.

Per: "STANLEY A. MILNER"
Name: Stanley A. Milner
Title: Chairman

Per: "GWYN MORGAN"
Name: Gwyn Morgan
Title: President and
Chief Executive Officer

SCHEDULE A

Plan of Arrangement under Section 193 of the *Business Corporations Act* (Alberta)

ARTICLE 1 INTERPRETATION

1.1 Definitions

In this Plan of Arrangement, unless the context should otherwise require, the following terms have the following meanings:

“**ABCA**” means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as may be amended;

“**AEC**” means Alberta Energy Company Ltd., a corporation existing under the ABCA;

“**AEC Deemed Eligible Shares**” means AEC Shares which are, at the Effective Time, either registered in the name of a registered holder of not more than 2,500 AEC Shares on the share registers maintained by AEC’s transfer agent or beneficially owned by a holder of not more than 2,500 AEC Shares; but in each case excluding AEC Shares registered in the name of or beneficially owned by a holder that is exempt from tax under Part I of the Tax Act in respect of such shares, other than a trust under an employee profit sharing plan, a trust under a retirement compensation arrangement or a qualifying environmental trust, as those terms are defined in the Tax Act;

“**AEC Meeting**” means such meeting or meetings of AEC Shareholders and AEC Optionholders as are required to be held in accordance with the Interim Order and any adjournments thereof;

“**AEC Option Plan**” means the AEC Share Option Plan, as amended and restated effective July 18, 2001;

“**AEC Optionholders**” means the holders of AEC Options;

“**AEC Options**” means options outstanding under the AEC Option Plan;

“**AEC Shareholders**” means the holders of AEC Shares;

“**AEC Shares**” means common shares in the capital of AEC;

“**AEC SRP**” means the Shareholder Rights Plan Agreement dated as of February 16, 1994, as amended and restated as of February 17, 1999, between AEC and CIBC Mellon Trust Company;

“**AEC SRP Rights**” means the rights issued and outstanding under the AEC SRP;

“**ArrangeCo**” means 3063550 Nova Scotia Company, an unlimited liability company incorporated under the *Companies Act* of Nova Scotia;

“**ArrangeCo Preferred Shares**” means 100 Class A Preferred Shares in the capital of ArrangeCo;

“**Arrangement**” means the arrangement under the provisions of section 193 of the ABCA, on the terms and conditions set forth in this Plan of Arrangement;

“**beneficial owner**” does not include a beneficiary of a trust where the beneficiary is not required to report the transactions of the trust for the purposes of the Tax Act, but does include such a trust;

“**Combination Agreement**” means the amended and restated combination agreement dated as of January 27, 2002, between PanCanadian and AEC, as may be amended from time to time;

“**Court**” means the Court of Queen’s Bench of Alberta;

“**Depository**” means CIBC Mellon Trust Company, or any successor thereto;

“**Effective Date**” means the date the Articles of Arrangement are filed with the Registrar;

“Effective Time” means the time at which the Articles of Arrangement are filed with the Registrar on the Effective Date;

“Eligible Holder” means a beneficial owner of AEC Shares (other than AEC Deemed Eligible Shares), whether or not such beneficial owner is also the registered holder of such AEC Shares, who:

- (a) is resident in Canada for purposes of the Tax Act, other than any such owner who is exempt from tax under Part I of the Tax Act (except a tax exempt entity that is a trust under an employee profit sharing plan, a trust under a retirement compensation arrangement or a qualifying environmental trust, as those terms are defined in the Tax Act);
- (b) is not resident in Canada for purposes of the Tax Act and whose AEC Shares constitute taxable Canadian property (as defined in the Tax Act), provided that any gain realized by such non-resident owner on the disposition of AEC Shares would not be exempt from tax under the Tax Act by virtue of an applicable tax treaty or convention; or
- (c) is a partnership that owns AEC Shares if one or more of its members would be an Eligible Holder if such member directly held such AEC Shares;

and who has properly completed an Eligible Holder Declaration, which is received by the Depository at one of its offices listed in the Eligible Holder Declaration by 4:00 p.m. (Calgary time) on the date of the AEC Meeting, confirming such owner’s status as an Eligible Holder as aforesaid;

“Eligible Holder Declaration” means the Eligible Holder Declaration sent by AEC to the AEC Shareholders concurrently with the sending of the Joint Circular for the AEC Meeting, or another written communication acceptable to PanCanadian;

“Exchange Ratio” means the exchange ratio of 1.472 PanCanadian Shares for each AEC Share;

“Final Order” means the order of the Court approving the Arrangement, as such order may be amended at any time prior to the filing of the Articles of Arrangement with the Registrar;

“Interim Order” means the interim order of the Court applied for by AEC, as the same may be amended, containing declarations and directions in respect of AEC with respect to the Arrangement and providing for, among other things, the calling and holding of the AEC Meeting;

“Joint Circular” means the joint information circular prepared by PanCanadian and AEC and sent to the AEC Shareholders and AEC Optionholders in connection with the AEC Meeting and in accordance with the Interim Order;

“Letter of Transmittal” means the letter of transmittal sent by AEC to the AEC Shareholders concurrently with the sending of the Joint Circular for the AEC Meeting;

“PanCanadian” means PanCanadian Energy Corporation, a corporation existing under the *Canada Business Corporations Act*;

“PanCanadian Shares” means common shares in the capital of PanCanadian;

“PanCanadian SRP” means the Amended and Restated Shareholder Rights Plan Agreement dated as of September 13, 2001 between PanCanadian and CIBC Mellon Trust Company;

“PanCanadian SRP Rights” means rights under the PanCanadian SRP;

“Plan of Arrangement” or **“Plan”** means this Plan of Arrangement and any amendment or variation hereto made in accordance with Section 4.1;

“Registrar” means the Registrar of Corporations appointed pursuant to Section 263 of the ABCA; and

“Tax Act” means the *Income Tax Act* (Canada), as amended from time to time.

1.2 Sections and Headings

The division of this Plan into Articles, Sections, subsections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Plan. Unless the contrary intention appears, references in this Plan to an Article, Section, subsection or paragraph by number or letter or both refer to the Article, Section, subsection or paragraph, respectively, bearing that designation in this Plan.

1.3 Number, Gender and Persons

In this Plan, unless the contrary intention appears, words importing the singular include the plural and vice versa; words importing gender shall include all genders; and words importing persons shall include a natural person, firm, trust, partnership, association, corporation, joint venture or government (including any governmental agency, political subdivision or instrumentality thereof).

1.4 Currency

Unless otherwise stated, all references in this Plan to sums of money are expressed in lawful money of Canada.

1.5 Payments

Any payments to be made hereunder, including exchanges for fractional PanCanadian Shares, shall be made without interest and less any tax required by law to be deducted and withheld.

ARTICLE 2

THE ARRANGEMENT

2.1 Arrangement

At the Effective Time, the following transactions shall occur and shall be deemed to occur in the following sequence without any further act or formality:

(a) ***Termination of AEC SRP***

the AEC SRP shall terminate and cease to have any further force or effect and the AEC SRP Rights shall be cancelled;

(b) ***Exchange of AEC Shares for PanCanadian Shares***

all AEC Shares shall be exchanged on the following basis (with the transactions in paragraphs 2.1(b)(i) and 2.1(b)(ii) occurring simultaneously):

- (i) all of the AEC Deemed Eligible Shares and all of the issued and outstanding AEC Shares beneficially owned by Eligible Holders at the Effective Time shall be transferred, free and clear of any encumbrances or claims, to PanCanadian, solely in exchange for the issue by PanCanadian to the AEC Shareholders in respect of such AEC Shares of fully paid and non-assessable PanCanadian Shares on the basis of the Exchange Ratio;
- (ii) all of the issued and outstanding AEC Shares, other than the AEC Deemed Eligible Shares and other than AEC Shares beneficially owned by Eligible Holders at the Effective Time, shall be transferred, free and clear of any encumbrances or claims, to ArrangeCo, solely in exchange for the issue by PanCanadian to the AEC Shareholders in respect of such AEC Shares of fully paid and non-assessable PanCanadian Shares on the basis of the Exchange Ratio, in consideration for which ArrangeCo shall issue to PanCanadian the ArrangeCo Preferred Shares; and
- (iii) upon completion of the exchanges referred to in this subsection 2.1(b), each AEC Shareholder shall cease to be such a holder of AEC Shares, shall, if a registered holder, have such holder's name removed from the register of holders of AEC Shares and shall be a holder of the number of PanCanadian Shares to which such holder is entitled as a result of such exchanges and, if a

registered holder, such holder's name shall be added to the register of holders of PanCanadian Shares accordingly; and PanCanadian shall be the legal and beneficial owner of the AEC Shares transferred pursuant to paragraph 2.1(b)(i) and ArrangeCo shall be the legal and beneficial owner of the AEC Shares transferred pursuant to paragraph 2.1(b)(ii) and PanCanadian and ArrangeCo shall be added to the register of holders of AEC Shares accordingly;

(c) *Issue of PanCanadian SRP Rights*

PanCanadian shall issue, in accordance with and pursuant to the PanCanadian SRP, to each former AEC Shareholder to whom PanCanadian Shares have been issued pursuant to subsection 2.1(b), one PanCanadian SRP Right for each whole PanCanadian Share so issued to such former AEC Shareholder; and

(d) *Conversion of AEC Options into PanCanadian Options*

each AEC Option will, without any further action on the part of any AEC Optionholder, be converted into an option (remaining under the AEC Option Plan) to purchase the number of PanCanadian Shares determined by multiplying the number of AEC Shares subject to the particular AEC Option at the Effective Time by the Exchange Ratio, at an exercise price per PanCanadian Share equal to the exercise price per share in the particular AEC Option at the Effective Time divided by the Exchange Ratio. If the foregoing calculation results in an option being exercisable for a fraction of a PanCanadian Share then the number of PanCanadian Shares subject to such option will be rounded down to the nearest whole number of shares, and the exercise price per whole PanCanadian Share will be as determined above. The obligations of AEC under the AEC Options so converted shall be assumed by PanCanadian and PanCanadian shall be substituted for AEC under the AEC Option Plan, the address for exercise of such converted options shall be the principal executive office of PanCanadian in Calgary, Alberta, Attention: Corporate Secretary, and the AEC Options as so converted will be further modified as necessary to effect such conversion. Except as provided in this subsection 2.1(d), the term, exerciseability and all other terms and conditions of the AEC Options in effect at the Effective Time shall govern the AEC Options as so converted.

For greater certainty, for purposes of the exchange set forth in subsection 2.1(b), any AEC Shares which former shareholders or unitholders of AEC Predecessors (as defined below) are entitled to receive upon surrender of the share or unit certificates formerly representing shares or units of an AEC Predecessor shall be considered to be issued and outstanding AEC Shares. AEC Predecessors means Pacalta Resources Ltd., Amber Energy Inc., Conwest Exploration Company Limited, AEC Pipelines, L.P. and any predecessor of any of them.

ARTICLE 3

CERTIFICATES AND FRACTIONAL SECURITIES

3.1 Issuance of Certificates Representing PanCanadian Shares

At or promptly after the Effective Time, PanCanadian shall deposit with the Depository, for the benefit of the former AEC Shareholders who exchanged AEC Shares pursuant to the Arrangement, certificates representing the PanCanadian Shares issued pursuant to the Arrangement upon the exchanges. Upon surrender to the Depository, at any of its offices specified in the Letter of Transmittal, of a certificate which prior to the Effective Time represented outstanding AEC Shares, and such additional documents and instruments as the Depository may reasonably require, the holder of such surrendered certificate shall be entitled to receive in exchange therefor, and the Depository shall forthwith deliver to such holder, a certificate representing that number (rounded down to the nearest whole number) of PanCanadian Shares which such holder received pursuant to the Arrangement (together with any dividends or distributions with respect thereto pursuant to Section 3.2 and any cash in lieu of fractional PanCanadian Shares pursuant to Section 3.3), and any certificate so surrendered shall forthwith be cancelled. In the event of a transfer of ownership of AEC Shares which is not registered in the transfer records of AEC, a certificate representing the proper number of PanCanadian Shares (together with any dividends or distributions with respect thereto pursuant to Section 3.2 and any cash in lieu of fractional PanCanadian Shares pursuant to Section 3.3) shall be delivered to a transferee if the certificate formerly representing such AEC Shares is presented to the Depository at its offices as aforesaid, accompanied

by the foregoing documents together with all other documents required to evidence and effect such transfer. Until surrendered as contemplated by this Section 3.1, each certificate which prior to the Effective Time represented outstanding AEC Shares shall be deemed at any time after the Effective Time, but subject to Section 3.5, to represent only the right to receive upon such surrender (a) the certificate representing PanCanadian Shares as contemplated by this Section 3.1, (b) a cash payment in lieu of any fractional PanCanadian Shares as contemplated by Section 3.3 and (c) any dividends or distributions with a record date on or after the Effective Date theretofore paid or payable with respect to PanCanadian Shares as contemplated by Section 3.2. Certificates representing PanCanadian SRP Rights, other than certificates representing PanCanadian Shares, will not be issued except in accordance with and pursuant to the PanCanadian SRP.

3.2 Dividends and Other Distributions

No dividends or other distributions declared or made on or after the Effective Date with respect to the PanCanadian Shares with a record date on or after the Effective Date shall be paid to the holder of any certificates formerly representing outstanding AEC Shares which are not surrendered pursuant to Section 3.1 and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 3.3 (and no interest will be earned and payable thereon), unless and until the certificate representing such AEC Shares shall be surrendered in accordance with Section 3.1. Subject to applicable law and to Section 3.5, at the time of such surrender of any such certificate (or, in the case of clause (c) below, at the appropriate payment date), there shall be paid to the holder of the PanCanadian Shares resulting from such exchange, in all cases without interest, (a) the amount of any cash payable in lieu of a fractional PanCanadian Share to which such holder is entitled pursuant to Section 3.3, (b) the amount of dividends or other distributions with a record date on or after the Effective Date theretofore paid with respect to such PanCanadian Shares, and (c) the amount of dividends or other distributions with a record date on or after the Effective Date but prior to surrender and a payment date subsequent to surrender payable with respect to such PanCanadian Shares.

3.3 No Fractional Shares

No certificates or scrip representing fractional PanCanadian Shares shall be issued upon the surrender for exchange of certificates pursuant to Section 3.1, and such fractional interests shall not entitle the owner thereof to vote or to possess or exercise any rights as a security holder of PanCanadian. In lieu of any such fractional interests, each person entitled thereto, will receive an amount of cash (rounded to the nearest whole cent), without interest, equal to the product of (a) such fractional interest, multiplied by (b) the average of the closing trading price for PanCanadian Shares on The Toronto Stock Exchange for the first three trading days on which PanCanadian Shares are traded following the Effective Date, such amount to be provided to the Depository by PanCanadian upon request.

3.4 Lost Certificates

If any certificate which prior to the Effective Time represented outstanding AEC Shares which were exchanged pursuant to Section 2.1 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed, the Depository will issue in exchange for such lost, stolen or destroyed certificate, certificates representing PanCanadian Shares (together with any dividends or distributions with respect thereto pursuant to Section 3.2 and any cash in lieu of fractional PanCanadian Shares pursuant to Section 3.3) deliverable in respect thereof as determined in accordance with Section 2.1. When seeking such certificate and payment in exchange for any lost, stolen or destroyed certificate, the person to whom certificates representing PanCanadian Shares are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to PanCanadian and its transfer agent, in such sum as PanCanadian may direct or otherwise indemnify PanCanadian and its transfer agent in a manner satisfactory to PanCanadian and its transfer agent against any claim that may be made against PanCanadian or its transfer agent with respect to the certificate alleged to have been lost, stolen or destroyed.

3.5 Extinguishment of Rights

Any certificate which prior to the Effective Time represented outstanding AEC Shares which were exchanged pursuant to Section 2.1 and has not been deposited, with all other instruments required by

Section 3.1, on or prior to the tenth anniversary of the Effective Date shall cease to represent a claim or interest of any kind or nature as a shareholder or a holder of PanCanadian Shares, PanCanadian SRP Rights or AEC Shares. On such date, the PanCanadian Shares (and any dividends or distributions with respect thereto and any cash pursuant to Section 3.3) and the PanCanadian SRP Rights to which the former holder of the certificate referred to in the preceding sentence was ultimately entitled shall be deemed to have been surrendered to PanCanadian, together with all entitlements to dividends, distributions, cash and interest thereon held for such former holder, for no consideration, and such shares and rights shall thereupon be cancelled and the name of the former registered holder shall be removed from the register of holders of such shares.

3.6 Converted AEC Options

As soon as practical after the Effective Date, PanCanadian shall confirm in writing to each of the former holders of AEC Options the terms of their options for PanCanadian Shares into which their AEC Options have been converted pursuant to subsection 2.1(d).

ARTICLE 4 **AMENDMENTS**

4.1 Amendments

AEC reserves the right to amend, modify and/or supplement this Plan of Arrangement at any time and from time to time provided that any such amendment, modification or supplement must be contained in a written document which is (i) agreed to by AEC and PanCanadian pursuant to the Combination Agreement, (ii) filed with the Court and, if made following the AEC Meeting, approved by the Court and (iii) communicated to AEC Shareholders and AEC Optionholders in the manner required by the Court (if so required).

Any amendment, modification or supplement to this Plan of Arrangement may be proposed by AEC at any time prior to or at the AEC Meeting (provided that PanCanadian shall have consented thereto), with or without any prior notice or communication, and if so proposed and accepted by the persons voting at the AEC Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

Any amendment, modification or supplement to this Plan of Arrangement which is approved or directed by the Court following the AEC Meeting shall be effective only if it is agreed to by AEC and PanCanadian pursuant to the Combination Agreement.

Any amendment, modification or supplement to this Plan of Arrangement may be made unilaterally by AEC after the Effective Time without the approval of the AEC Shareholders or AEC Optionholders, provided that (i) it is agreed to by AEC and PanCanadian pursuant to the Combination Agreement; and (ii) it concerns a matter which, in the reasonable opinion of AEC, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of the AEC Shareholders or the AEC Optionholders.

SCHEDULE B

REPRESENTATIONS AND WARRANTIES OF PANCANADIAN

1. Organization.

Each of PanCanadian and its Material Subsidiaries has been duly incorporated or formed under the Laws of its jurisdiction of incorporation or other organization, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares in the capital of and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by PanCanadian are (except as disclosed in writing to AEC or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholder, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned): (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries.

2. Capitalization.

The authorized capital of PanCanadian consists of an unlimited number of PanCanadian Shares, an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series. As of December 31, 2001 there were 254,939,851 PanCanadian Shares outstanding and no first preferred shares or second preferred shares outstanding and 10,511,178 PanCanadian Shares were issuable pursuant to options outstanding under the PanCanadian Option Plans. Except as described in the immediately preceding sentence or otherwise disclosed in writing and other than pursuant to the rights under the PanCanadian Shareholder Rights Plan, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating PanCanadian or any Subsidiary to issue or sell (other than to a wholly-owned Subsidiary of PanCanadian or any of its Subsidiaries) any shares of PanCanadian or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of PanCanadian, any Subsidiary or any other person, nor (except for rights under the PanCanadian Option Plans, certain Share Appreciation Rights Agreements, the Senior Executive Long-Term Incentive Plan and the Senior Executive Performance Incentive Plan) is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of PanCanadian or any Subsidiary. There have been no PanCanadian Shares issued since December 31, 2001, other than pursuant to the exercise of stock option entitlements. Since December 31, 2001, PanCanadian has granted PanCanadian Options only in the ordinary course of business and has not made any annual grants.

3. Authority.

PanCanadian has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by PanCanadian and the consummation by PanCanadian of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of PanCanadian and, subject to approval by the PanCanadian Shareholders and the Court, no other corporate proceedings on the part of PanCanadian are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by PanCanadian and constitutes a valid and binding obligation of PanCanadian, enforceable against PanCanadian in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to AEC on or prior to the date hereof and subject to obtaining all consents and approvals contemplated by this Agreement, the execution and delivery by PanCanadian of this Agreement and

performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

- (a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:
 - (i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any person holding an ownership interest in any Material Subsidiary;
 - (ii) any law, regulation, order, judgment or decree; or
 - (iii) any contract, agreement, license, franchise or permit to which PanCanadian or any Material Subsidiary is bound or is subject or is the beneficiary;
- (b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or
- (c) result in the imposition of any Encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of PanCanadian or any Material Subsidiary to carry on the business of PanCanadian or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on PanCanadian or materially impair the ability of PanCanadian to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

4. Absence of Changes.

Since December 31, 2000, and except as has been previously disclosed in writing to AEC or has been publicly disclosed prior to the date hereof in any document filed with the Alberta Securities Commission (the "Securities Authorities") (i) PanCanadian has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to PanCanadian or which materially and adversely affects the ability of PanCanadian to consummate the transactions contemplated hereby have been incurred, (iii) there has not been any material change, as defined under the *Securities Act* (Alberta), in the affairs of PanCanadian or in the financial condition, results of operations or business of PanCanadian and (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

- (a) Other than as disclosed in writing to AEC on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Special Meeting of PanCanadian held on September 26, 2001, neither PanCanadian nor any Material Subsidiary is a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive.
- (b) Other than as disclosed in writing to AEC on or prior to the date hereof, neither PanCanadian nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either PanCanadian or any Material Subsidiary that would individually or in the aggregate have a material adverse effect on PanCanadian.
- (c) Other than as disclosed in writing to AEC on or prior to the date hereof, neither PanCanadian nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other

tort claim, actual or threatened, or any litigation, actual or threatened, relating to its employees or independent contractors (including any termination of such persons) other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect on PanCanadian.

- (d) Other than as disclosed in writing to AEC on or prior to the date hereof or as are not material, PanCanadian and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect on PanCanadian.

6. Disclosure.

PanCanadian has publicly disclosed in documents filed with the Securities Authorities or disclosed to AEC in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could, individually or in the aggregate, reasonably be expected to have a material adverse effect on PanCanadian or materially and adversely affects the ability of PanCanadian to consummate the transactions contemplated hereby.

7. Financial Statements.

Except as disclosed in writing to AEC on or prior to the date hereto, the audited consolidated balance sheet and related consolidated statements of income, retained income and cash flows of PanCanadian Petroleum Limited, predecessor to PanCanadian, for the fiscal years ended December 31, 2000 and 1999 and the unaudited interim consolidated financial statements of PanCanadian for the periods ended March 31, 2001, June 30, 2001 and September 30, 2001, were prepared in accordance with generally accepted accounting principles in Canada consistently applied (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of PanCanadian's independent accountants or (ii) in the case of unaudited interim financial statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present the consolidated financial condition of PanCanadian at the respective dates indicated and the results of operations of PanCanadian (on a consolidated basis) for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments).

8. Books and Records.

The corporate records and minute books of PanCanadian and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to AEC on or prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of PanCanadian, threatened against or relating to PanCanadian or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on PanCanadian or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is PanCanadian aware of any basis for any such claim, action, proceeding or investigation. Neither PanCanadian nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect on PanCanadian or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of PanCanadian and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not, individually or in the aggregate, have a material adverse effect on PanCanadian. Except as has been disclosed in writing to AEC on or prior to the date hereof, neither PanCanadian nor any Material Subsidiary is aware of, or is subject to:

- (a) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or
- (b) any demand or notice with respect to the breach of any Environmental Laws applicable to PanCanadian or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on PanCanadian.

11. Insurance.

Policies of insurance in force as of the date hereof naming PanCanadian as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of PanCanadian and the Material Subsidiaries for which, having regard to the nature of such risk and the relative cost of obtaining insurance, it is in the opinion of PanCanadian reasonable to seek such insurance rather than provide for self insurance. All such policies of insurance shall remain in force and effect (subject to taking into account insurance market conditions and offerings and industry practices) and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect on PanCanadian.

12. Tax Matters.

- (a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of PanCanadian or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by PanCanadian to AEC on or prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other material amount of Taxes are payable by PanCanadian or any Material Subsidiaries with respect to items or periods covered by such Returns.
- (b) **Tax Reserves.** PanCanadian has paid or provided adequate accruals in its consolidated financial statements for the year ended December 31, 2000 for Taxes assessed, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.
- (c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to AEC, no deficiencies exist or have been asserted with respect to Taxes of PanCanadian or any Material Subsidiary, neither PanCanadian nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against PanCanadian or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to PanCanadian or the Arrangement.

13. Pension and Employee Benefits.

- (a) Other than as disclosed in writing to AEC on or prior to the date hereof, PanCanadian has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of PanCanadian and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon PanCanadian or any of its Material

Subsidiaries (collectively referred to as the “PanCanadian Plans”) and all PanCanadian Plans are fully funded and in good standing with such regulatory authorities as may be applicable.

- (b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any PanCanadian Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or threatened in respect of any of the PanCanadian Plans or their assets which individually or in the aggregate would have a material adverse effect on PanCanadian.
- (c) Other than as disclosed in writing to AEC on or prior to the date hereof, no event has occurred or condition exists with respect to any of the PanCanadian Plans or relating to any employee of PanCanadian or a Material Subsidiary which, individually or in the aggregate, is reasonably likely to result in a material liability to PanCanadian.

14. Property.

PanCanadian and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or authorities permitting the use of land by PanCanadian and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party hereto on or prior to the date hereof and except for such failures of title that would, individually or in the aggregate, not have a material adverse effect on PanCanadian.

15. Reports.

PanCanadian (or its predecessor, PanCanadian Petroleum Limited) has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1999 except for such forms, reports, schedules, statements or other documents which were not material (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the “PanCanadian Documents”). The PanCanadian Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation.

16. Compliance with Laws.

Since December 31, 2000, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, PanCanadian and its Material Subsidiaries (or its predecessor PanCanadian Petroleum Limited and its material subsidiaries) have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not, individually or in the aggregate, have a material adverse effect on PanCanadian or which would not materially impair the ability of PanCanadian to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

17. Licenses, etc.

Except as disclosed in writing to AEC on or prior to the date hereof, PanCanadian and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not, individually or in the aggregate, have a material adverse effect on PanCanadian or would not materially impair the ability of PanCanadian to perform its

obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

18. Certain Contracts.

Except as disclosed in writing to AEC on or prior to the date hereof, neither PanCanadian nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of PanCanadian or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on PanCanadian or would not materially impair the ability of PanCanadian to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

19. PanCanadian Shareholder Rights Plan.

The entering into of this Agreement does not result in a Flip-in Event (as defined in the PanCanadian Shareholder Rights Plan) or cause the Separation Time (as defined in the PanCanadian Shareholder Rights Plan) to occur.

SCHEDULE C

REPRESENTATIONS AND WARRANTIES OF AEC

1. Organization.

Each of AEC and its Material Subsidiaries has been duly incorporated or formed under the Laws of its jurisdiction of incorporation or other organization, is validly subsisting and has full corporate or legal power and authority to own its properties and conduct its businesses as presently owned and conducted. All of the outstanding shares in the capital of and other ownership interests of its Subsidiaries are validly issued, fully paid and non-assessable and all such shares and other ownership interests owned directly or indirectly by AEC are (except as disclosed in writing to PanCanadian or pursuant to restrictions on transfer contained in constating documents, rights of first refusal and similar rights restricting transfer contained in shareholder, partnership or joint venture agreements for or pursuant to existing financing arrangements involving Subsidiaries which are not wholly owned): (i) owned free and clear of all material liens, claims or encumbrances and (ii) there are no outstanding options, rights, entitlements, understandings or commitments (contingent or otherwise) regarding the right to acquire any such shares of capital stock or other ownership interests in any of its Subsidiaries.

2. Capitalization.

The authorized capital of AEC consists of: (a) an unlimited number of AEC Shares (b) 5,000,000 non-voting shares; (c) 20,000,000 first preferred shares; (d) 20,000,000 second preferred shares; and (e) 20,000,000 third preferred shares. As of December 31, 2001 there were 147,860,362 AEC Shares outstanding and no non-voting shares, first, second or third preferred shares outstanding and 9,881,961 AEC Shares were issuable pursuant to outstanding AEC Options. Except as described in the immediately preceding sentence or as disclosed in writing to PanCanadian and except for: (a) the 8.38% capital securities, (b) the 8.50% capital securities, (c) AEC Shares issuable to shareholders of previously acquired corporations, (d) the dividend reinvestment and share purchase plan, (e) the deferred share unit plan for directors, (f) share appreciation rights, and (g) rights under the AEC Shareholder Rights Plan, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating AEC or any Subsidiary to issue or sell (other than to a wholly-owned Subsidiary of AEC or any of its Subsidiaries) any shares of AEC or any of its Subsidiaries or securities or obligations of any kind convertible into or exchangeable for any shares of AEC, any Subsidiary or any other person, nor is there outstanding any stock appreciation rights, phantom equity or similar rights, agreements, arrangements or commitments based upon the book value, income or any other attribute of AEC or the Subsidiary. There have been no AEC Shares issued since December 31, 2001 other than pursuant to the exercise of stock option entitlements or pursuant to the dividend reinvestment and share purchase plan. Since December 31, 2001 AEC has granted AEC Options only in the ordinary course of business had has not made any annual grants.

3. Authority.

AEC has the requisite corporate power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by AEC and the consummation by AEC of the transactions contemplated by this Agreement have been duly authorized by the Board of Directors of AEC and, subject to approval by the AEC Shareholders and the Court, no other corporate proceedings on the part of AEC are necessary to authorize this Agreement or the transactions contemplated hereby. This Agreement has been duly executed and delivered by AEC and constitutes a valid and binding obligation of AEC, enforceable against AEC in accordance with its terms subject to bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other applicable Laws relating to or affecting creditors' rights generally, to general principles of equity and public policy. Except as disclosed in writing to PanCanadian on or prior to the date hereof and subject to obtaining all consents and approvals contemplated by this Agreement, the execution and delivery by

AEC of this Agreement and performance by it of its obligations hereunder and the completion of the Arrangement and the transactions contemplated thereby, will not:

- (a) result in a violation or breach of, require any consent to be obtained under or give rise to any termination rights under any provision of:
 - (i) its or any Material Subsidiary's certificate of incorporation, articles, by-laws or other charter documents, including any unanimous shareholder agreement or any other agreement or understanding with any Person holding an ownership interest in any Material Subsidiary;
 - (ii) any law, regulation, order, judgment or decree; or
 - (iii) any contract, agreement, license, franchise or permit to which AEC or any Material Subsidiary is bound or is subject or is the beneficiary;
- (b) give rise to any right of termination or acceleration of indebtedness, or cause any third party indebtedness to come due before its stated maturity or cause any available credit to cease to be available; or
- (c) result in the imposition of any Encumbrance, charge or lien upon any of its assets or the assets of any Material Subsidiary, or restrict, hinder, impair or limit the ability of AEC or any Material Subsidiary to carry on the business of AEC or any Material Subsidiary as and where it is now being carried on or as and where it may be carried on in the future;

which would individually or in the aggregate have a material adverse effect on AEC or materially impair the ability of AEC to perform its obligations hereunder or materially delay the consummation of the transactions contemplated hereby.

4. Absence of Changes.

Since December 31, 2000, and except as has been previously disclosed in writing to PanCanadian or has been publicly disclosed prior to the date hereof in any document filed with the Alberta Securities Commission (the "Securities Authorities") (i) AEC has conducted its business only in the ordinary and regular course of business consistent with past practice, (ii) other than in the ordinary and regular course of business consistent with past practice, no liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) which would individually or in the aggregate be material to AEC or which materially and adversely affects the ability of AEC to consummate the transactions contemplated hereby have been incurred, (iii) there has not been any material change, as defined under the *Securities Act* (Alberta), in the affairs of AEC or in the financial condition, results of operations or business of AEC and (iv) as of the execution hereof, there are no material change reports filed with the Securities Authorities which remain confidential.

5. Employment Agreements.

- (a) Other than as disclosed in writing to PanCanadian on or prior to the date hereof, or except as set forth in the proxy circular prepared in connection with the Annual Meeting of AEC held on April 18, 2001, neither AEC nor any Material Subsidiary is a party to any written or oral policy, agreement, obligation or understanding providing for severance or termination payments to, or any employment agreement with, any senior executive.
- (b) Other than as disclosed in writing to PanCanadian on or prior to the date hereof, neither AEC nor any Material Subsidiary is a party to any collective bargaining agreement nor subject to any application for certification or threatened or apparent union-organizing campaigns for employees not covered under a collective bargaining agreement nor are there any current, pending or threatened strikes or lockouts at either AEC or any Material Subsidiary that would individually or in the aggregate have a material adverse effect on AEC.

- (c) Other than as disclosed in writing to PanCanadian on or prior to the date hereof, neither AEC nor any Material Subsidiary is subject to any claim for wrongful dismissal, constructive dismissal or any other tort claim, actual or threatened, or any litigation, actual or threatened, relating to its employees or independent contractors (including any termination of such persons) other than those claims or such litigation as would individually or in the aggregate not have a material adverse effect on AEC.
- (d) Other than as disclosed in writing to PanCanadian on or prior to the date hereof or as are not material, AEC and all Material Subsidiaries have operated in accordance with all applicable Laws with respect to employment and labour, including, but not limited to, employment and labour standards, occupational health and safety, employment equity, pay equity, workers' compensation, human rights and labour relations and there are no current, pending or threatened proceedings before any board or tribunal with respect to any of the areas listed herein other than where the failure to so operate or such proceedings which, individually or in the aggregate would not have a material adverse effect on AEC.

6. Disclosure.

AEC has publicly disclosed in documents filed with the Securities Authorities or disclosed to PanCanadian in writing, on or prior to the date hereof, any information regarding any event, circumstance or action taken or failed to be taken which could, individually or in the aggregate, reasonably be expected to have a material adverse effect on AEC or materially and adversely affects the ability of AEC to consummate the transactions contemplated hereby.

7. Financial Statements.

The audited consolidated financial statements of AEC for the fiscal year ended December 31, 2000 and the unaudited interim consolidated financial statements of AEC for the periods ended March 31, 2001, June 30, 2001 and September 30, 2001 were prepared in accordance with generally accepted accounting principles in Canada consistently applied (except (i) as otherwise indicated in such financial statements and the notes thereto or, in the case of audited statements, in the related report of AEC's independent accountants or (ii) in the case of unaudited interim financial statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present the consolidated financial condition of AEC at the respective dates indicated and the results of operations of AEC (on a consolidated basis) for the periods indicated therein (subject, in the case of any unaudited interim financial statements, to normal year-end audit adjustments).

8. Books and Records.

The corporate records and minute books of AEC and the Material Subsidiaries have been maintained substantially in accordance with all applicable Laws and are complete and accurate in all material respects.

9. Litigation, etc.

Except as set forth or specifically reflected in any document filed with the Securities Authorities, or as disclosed in writing to PanCanadian on or prior to the date hereof, there is no claim, action, proceeding or investigation pending or, to the knowledge of AEC, threatened against or relating to AEC or any Material Subsidiary or affecting any of their properties or assets before any court or governmental or regulatory authority or body that, if adversely determined, is likely to have a material adverse effect on AEC, or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement, nor is AEC aware of any basis for any such claim, action, proceeding or investigation. Neither AEC nor any Material Subsidiary is subject to any outstanding order, writ, injunction or decree that has had or is reasonably likely to have a material adverse effect on AEC or prevent or materially delay consummation of the transactions contemplated by this Agreement or the Arrangement.

10. Environmental.

All operations of AEC and its Material Subsidiaries, have been and are now, in compliance with all Environmental Laws, except where the failure to be in compliance would not, individually or in the aggregate, have a material adverse effect on AEC. Except as has been disclosed in writing to PanCanadian on or prior to the date hereof, neither AEC nor any Material Subsidiary is aware of, or is subject to:

- (a) any proceeding, application, order or directive which relates to environmental health or safety matters, and which may require any material work, repairs, construction, or expenditures; or
- (b) any demand or notice with respect to the breach of any Environmental Laws applicable to AEC or any Subsidiary, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of Hazardous Substances;

which individually or in the aggregate would have a material adverse effect on AEC.

11. Insurance.

Policies of insurance in force as of the date hereof naming AEC as an insured adequately cover all risks reasonably and prudently foreseeable in the operation and conduct of the business of AEC and the Material Subsidiaries for which, having regard to the nature of such risk and the relative costs of obtaining insurance, it is in the opinion of AEC reasonable to seek such insurance rather than provide for self insurance. All such policies of insurance shall remain in force and effect (subject to taking into account insurance market conditions and offerings and industry practices) and shall not be cancelled or otherwise terminated as a result of the transactions contemplated hereby or by the Arrangement other than such cancellations as would not individually or in the aggregate have a material adverse effect on AEC.

12. Tax Matters.

- (a) **Returns Filed and Taxes Paid.** All Returns required to be filed by or on behalf of AEC or any Material Subsidiaries have been duly filed on a timely basis and such Returns are true, complete and correct in all material respects. Except as disclosed in writing by AEC to PanCanadian on or prior to the date hereof, all Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other material amount of Taxes are payable by AEC or any Material Subsidiaries with respect to items or periods covered by such Returns.
- (b) **Tax Reserves.** AEC has paid or provided adequate accruals in its consolidated financial statements for the year ended December 31, 2000 for Taxes assessed, including income taxes and related deferred taxes, in conformity with generally accepted accounting principles applicable in Canada.
- (c) **Tax Deficiencies; Audits.** Except as has been disclosed in writing to PanCanadian, no deficiencies exist or have been asserted with respect to Taxes of AEC or any Material Subsidiary, neither AEC nor any Material Subsidiary is a Party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened against AEC or any Material Subsidiary or any of their respective assets, except where such deficiencies, actions or proceedings are not material to AEC or the Arrangement.

13. Pension and Employee Benefits.

- (a) Other than as disclosed in writing to PanCanadian on or prior to the date hereof, AEC has complied, in all material respects, with all the terms of and all applicable Laws in respect of the pension and other employee compensation and benefit obligations of AEC and its Material Subsidiaries, including the terms of any collective agreements, funding and investment contracts or obligations applicable thereto, arising under or relating to each of the pension or retirement income plans or other employee compensation or benefit plans, agreements, policies, programs, arrangements or practices, whether written or oral, which are maintained by or binding upon AEC or any of its Material Subsidiaries

(collectively referred to as the “AEC Plans”) and all AEC Plans are fully funded and in good standing with such regulatory authorities as may be applicable.

- (b) No step has been taken, no event has occurred and no condition or circumstance exists that has resulted in or could reasonably be expected to result in any AEC Plan being ordered or required to be terminated or wound up in whole or in part or having its registration under applicable legislation refused or revoked, or being placed under the administration of any trustee or receiver or regulatory authority or being required to pay any material taxes, fees, penalties or levies under applicable Laws. There are no actions, suits, claims (other than routine claims for payment of benefits in the ordinary course), trials, demands, investigations, arbitrations or other proceedings which are pending or threatened in respect of any of the AEC Plans or their assets which individually or in the aggregate would have a material adverse effect on AEC.
- (c) Other than as disclosed in writing to PanCanadian on or prior to the date hereof, no event has occurred or condition exists with respect to the AEC Plans or relating to any employee of AEC or a Material Subsidiary which, individually or in the aggregate, is reasonably likely to result in a material liability to AEC.

14. Property.

AEC and its Material Subsidiaries have good and sufficient title to the real property interests including, without limitation, fee simple estate of and in real property, leases, easements, rights of way, permits or licences from landowners or authorities permitting the use of land by AEC and its Material Subsidiaries, necessary to permit the operation of its businesses as presently owned and conducted except as disclosed in writing to the other Party hereto on or prior to the date hereof and except for such failures of title that would, individually or in the aggregate, not have a material adverse effect on AEC.

15. Reports.

AEC has filed with the Securities Authorities, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1999 except for such forms, reports, schedules, statements or other documents which were not material (such forms, reports, schedules, statements and other documents, including any financial statements or other documents, including any financial statements or schedules included therein, are referred to as the “AEC Documents”). The AEC Documents, at the time filed, (a) did not contain any misrepresentation and (b) complied in all material respects with the requirements of applicable securities legislation.

16. Compliance with Laws.

Since December 31, 2000, and except as has been publicly disclosed prior to the date hereof in any document filed with the Securities Authorities, AEC and its Material Subsidiaries have complied with and are not in violation of any applicable Laws other than non-compliance or violations which would not individually or in the aggregate have a material adverse effect on AEC or which would not materially impair the ability of AEC to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

17. Licenses, etc.

Except as disclosed in writing to PanCanadian on or prior to the date hereof, AEC and each of its Material Subsidiaries owns, possesses, or has obtained and is in compliance with, all licenses, permits (including permits required under Environmental Laws), certificates, orders, grants and other authorizations of or from any Governmental Entity necessary to conduct its businesses as now conducted or as proposed to be conducted, the failure to own, possess, obtain or be in compliance with which would not individually or in the aggregate have a material adverse effect on AEC or would not materially impair the ability of AEC to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

18. Certain Contracts.

Except as disclosed in writing to PanCanadian on or prior to the date hereof, neither AEC nor any of its Material Subsidiaries is a party to or bound by any non-competition agreement or any other agreement or obligation which purports to limit the manner or the localities in which all or any material portion of the business of AEC or its Material Subsidiaries is or would be conducted other than such contracts which individually or in the aggregate would not have a material adverse effect on AEC or would not materially impair the ability of AEC to perform its obligations hereunder or prevent or materially delay the consummation of any of the transactions contemplated hereby.

19. AEC Shareholder Rights Plan

The entering into of this Agreement does not result in a Flip-in Event (as defined in the AEC Shareholder Rights Plan) or cause the Separation Time (as defined in the AEC Shareholder Rights Plan) to occur.

SCHEDULE D

GOVERNANCE ARRANGEMENTS

1. Board of Directors

The Board of Directors of PanCanadian from the Effective Date (“EnCana”) until the next annual meeting or until their successors are elected or appointed shall be divided equally between persons who were directors of PanCanadian and AEC prior to the Effective Date. The following 16 persons shall comprise the Board of Directors of EnCana as of the Effective Date:

Michael N. Chernoff
Patrick D. Daniel
Ian W. Delaney
William R. Fatt
Michael A. Grandin
Barry W. Harrison
Richard F. Haskayne
John C. Lamacraft

Dale A. Lucas
Ken F. McCready
Gwyn Morgan
Valerie A.A. Nielsen
David P. O’Brien
Dennis A. Sharp
T. Don Stacy
James M. Stanford

2. Senior Officers

The following will be the senior appointments of EnCana from the Effective Date:

Chairman: David P. O’Brien

President and Chief Executive Officer: Gwyn Morgan

3. Name of Corporation

The parties agree they will use their best efforts to change the name of PanCanadian to “EnCana Corporation” concurrently with the Arrangement becoming effective. In the event that the name change of PanCanadian cannot be effected at such time, the parties shall consider in good faith alternative names which are not PanCanadian or AEC derivatives and shall use their best efforts to effect such alternate name as is acceptable to the Chairman and Chief Executive Officer of PanCanadian and the President and Chief Executive Officer of AEC at the date hereof, as soon as is practicable (the foregoing being the “Agreed Name”).

4. Transitional Arrangements

Between the date hereof and the Effective Date, the Chief Executive Officers of each of PanCanadian and AEC shall agree on an organizational structure for EnCana to be implemented as soon as practicable after the Effective Date and shall agree on the placement of individuals in respect of significant management positions.

It is the intention of PanCanadian and AEC that there be a reasonable sharing of employment positions for the combined business operations of EnCana after the Effective Date; it being understood that determinations in respect of such positions shall be made in a manner consistent with the efficient operation of the combined business operations.

5. Options

PanCanadian acknowledges that upon completion of the Arrangement and the reconstitution of the Board of Directors of EnCana as contemplated in Section 1, all of the AEC Options which are converted into PanCanadian Substitute Options pursuant to the Plan of Arrangement will vest and become immediately exercisable. AEC consents and agrees to the Board of Directors of PanCanadian authorizing the vesting of all outstanding PanCanadian options and share appreciation rights in respect of PanCanadian Shares upon completion of the Arrangement. Upon the Arrangement becoming effective, all share appreciation rights in respect of AEC Shares shall be amended with the same effect, to the extent possible, as the immediate vesting and conversion of the AEC Options.

AEC and PanCanadian anticipate that, following the completion of the Arrangement, the Board of Directors of EnCana will conduct an assessment of EnCana's outstanding options. This may result in additional options being granted or in the surrender of options in conjunction with the grant of new options, all in accordance with the terms of the EnCana option plans and subject to any required stock exchange and shareholder approvals. All determinations with respect of the foregoing matters described in this paragraph shall be at the discretion of the Board of Directors of EnCana.

APPENDIX E

FAIRNESS OPINIONS

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World Markets

CIBC World Markets Inc.

11th Floor Bankers Hall
855 - 2nd Street S.W.
Calgary, Alberta T2P 4J7
Tel: (403) 260-0500
Fax: (403) 260-0524

January 27, 2002

The Board of Directors of
Alberta Energy Company Ltd.
Suite 3900, 421 - 7th Avenue S.W.
Calgary, Alberta
T2P 4K9

Dear Sirs:

CIBC World Markets Inc. ("CIBC World Markets") understands that Alberta Energy Company Ltd. ("AEC") and PanCanadian Energy Corporation ("PCE") propose to enter into a combination agreement (the "Combination Agreement") dated January 27, 2002, which will provide for the merger of AEC and PCE (the "Merger"). Pursuant to the Merger, each holder of common shares of AEC will receive 1.472 common shares of PCE (the "Consideration") for each AEC common share.

The completion of the Merger is conditional upon the approval by the holders of AEC common shares and by the holders of PCE common shares at special meetings expected to be held in April 2002. The Merger will be more fully described in the Joint Management Information Circular of AEC and PCE which will be mailed to holders of AEC common shares and PCE common shares in connection with those meetings.

Background to CIBC World Markets Engagement

AEC retained CIBC World Markets to provide financial advice to the Board of Directors of AEC (the "Board of Directors") in connection with a possible merger with PCE. In connection with the Merger, the Board of Directors has asked us to provide our opinion (the "Opinion") as to the fairness, from a financial point of view, of the Consideration to be received by holders of AEC common shares pursuant to the Merger. We have not been engaged to prepare, and have not prepared, a formal valuation or appraisal of any of the securities, assets or liabilities of AEC or PCE, and our Opinion should not be construed as such. However, CIBC World Markets has conducted financial analyses which we considered appropriate and necessary in the circumstances to support the conclusions reached in our Opinion.

CIBC World Markets will be paid a fee for rendering our Opinion. In addition, we will be paid a fee which is contingent upon the consummation of the Merger. AEC also agreed to indemnify CIBC World Markets in respect of certain liabilities arising out of its engagement.

CIBC World Markets is a subsidiary of Canadian Imperial Bank of Commerce, which is a lender to AEC and PCE. CIBC World Markets has, in the past, provided AEC and PCE with securities underwriting, financial advice and other investment banking services. In the ordinary course of our business, we and our affiliates may actively trade the debt and equity securities of both AEC and PCE for our and such affiliates' own accounts and for the accounts of our clients and, accordingly, may at any time hold long or short positions in such securities.

Credentials of CIBC World Markets

CIBC World Markets is one of Canada's largest investment banking firms with operations in all facets of corporate and government finance, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Opinion expressed herein is the opinion of CIBC World Markets and the form and content herein have been approved for release by a committee of its managing directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

Scope of Review

In connection with rendering this Opinion, we have reviewed and relied upon, among other things, the following:

- (i) a draft of the Combination Agreement to be dated January 27, 2002;
- (ii) the audited financial statements, annual reports and annual information forms of AEC and PCE for the fiscal years ended December 31, 1998, 1999 and 2000;
- (iii) the interim reports and unaudited financial statements of AEC and PCE for the quarters ended March 31, 2000 and 2001, June 30, 2000 and 2001, and September 30, 2000 and 2001;
- (iv) the Notice of Special Meeting of Shareholders of PCE and the Management Proxy Circular with respect to an arrangement involving PCE and Canadian Pacific Limited, each dated August 3, 2001;
- (v) estimated financial statements as at and for the year ended December 31, 2001 for each of AEC and PCE;
- (vi) the budget and outlook of AEC providing operating and financial projections for the years ending December 31, 2002 to December 31, 2005;
- (vii) the strategic plan of PCE providing operating and financial projections for the years ending December 31, 2002 to December 31, 2006;
- (viii) estimated reserve volumes as at December 31, 2001 for each of AEC and PCE, as prepared by the respective companies;
- (ix) certain internal financial, operational, legal, corporate and other information prepared or provided by the managements of AEC and PCE;
- (x) analysis and financial statements pro forma the Merger for the fiscal years ending December 31, 2002 to December 31, 2005;
- (xi) discussions with the senior management of AEC with regard to, among other things, the business, operations and prospects for each of AEC and PCE and the potential synergies resulting from the Merger;
- (xii) due diligence meetings with the senior managements of AEC and PCE and their respective legal counsel and auditors regarding certain business, operations, legal, auditing and other matters;
- (xiii) discussions with AEC management and tax counsel regarding certain tax matters related to the Merger;
- (xiv) trading histories and selected financial information of AEC, PCE and other selected public oil and gas producers considered by us to be relevant;
- (xv) separate letters of representation addressed to us, dated as of the date hereof, from senior officers of AEC and PCE as to the completeness and accuracy of the information upon which this Opinion is based; and
- (xvi) such other information, analyses, investigations, and discussions as we considered appropriate in the circumstances.

Assumptions and Limitations

With your permission, we have relied upon, and have assumed the completeness, accuracy and fair presentation of all financial and other information, data, advice, opinions and representations obtained by us from public sources, or provided to us by AEC, PCE and their affiliates or advisors or otherwise obtained pursuant to our engagement, and our Opinion is conditional upon such completeness, accuracy and fair presentation. We have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. We have also relied upon the representation letters delivered to us by the senior managements of AEC and PCE.

We have assumed that the Merger will be consummated in accordance with the terms set forth in the Combination Agreement without any material modification or waiver. Further, we have assumed that the tax consequences as a result of the completion of the Merger will not result in a material adverse effect on PCE after the Merger has become effective.

Our Opinion is rendered on the basis of securities markets and economic and general business and financial conditions prevailing as at the date hereof and the conditions and prospects, financial and otherwise, of AEC and PCE as they are reflected in the information reviewed by us and as they were represented to us by the managements of AEC and PCE and their respective advisors. Any changes therein may affect our Opinion and, although we reserve the right to change or withdraw our Opinion in such event, we disclaim any obligation to advise any person of any change that may come to our attention or to update our Opinion after today. In our analyses and in connection with the preparation of our Opinion, we made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Merger.

Our Opinion has been provided for the exclusive use of the Board of Directors and may not be referred to, summarized, circulated, publicized or reproduced by AEC or disclosed to, used or relied upon by any other party without the express prior written consent of CIBC World Markets.

Our Opinion is not to be construed as a recommendation to any holder of AEC common shares as to whether to vote their AEC common shares in favour of approving the Merger. CIBC World Markets is not expressing any opinion as to the value of the Consideration, if and when issued pursuant to the Merger, or the prices at which PCE common shares will trade after completion of the Merger.

Conclusion

Based upon and subject to the foregoing and such other matters as we considered relevant, it is our opinion, as of the date hereof, that the Consideration to be received by holders of AEC common shares pursuant to the Merger is fair, from a financial point of view, to the holders of AEC common shares.

Yours very truly,

CIBC World Markets Inc.

**Merrill Lynch, Pierce, Fenner & Smith
Incorporated**
World Financial Center
North Tower
250 Vesey Street
New York, NY 10281



January 27, 2002

Board of Directors
Alberta Energy Company Ltd.
Suite 3900, 421 - 7th Avenue S.W.
Calgary, Alberta T2P 4K9

Members of the Board of Directors:

We understand that Alberta Energy Company Ltd. ("AEC") and PanCanadian Energy Corporation ("PCE") propose to enter into an agreement dated January 27, 2002 (the "Combination Agreement") whereby AEC will merge with PCE (the "Merger"). Pursuant to the Merger, each holder of common shares of AEC will receive 1.472 common shares of PCE (the "Consideration") for each AEC common share.

You have asked us whether, in our opinion, the Consideration is fair from a financial point of view to holders of AEC common shares.

In arriving at the opinion set forth below, we have, among other things:

- (1) Reviewed certain publicly available business and financial information relating to AEC and PCE that we deemed to be relevant;
- (2) Reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of AEC and PCE, provided to us by the management of AEC and PCE, respectively, as well as the amount and timing of the cost savings and related expenses and synergies expected to result from the Merger (the "Expected Synergies") provided to us by AEC and PCE, respectively;
- (3) Conducted discussions with members of senior management and representatives of AEC and PCE concerning the matters described in clauses (1) and (2) above, as well as their respective businesses and prospects before and after giving effect to the Merger and the Expected Synergies;
- (4) Reviewed the market prices and valuation multiples for AEC common shares and PCE common shares and compared them with those of certain publicly traded companies that we deemed to be relevant;
- (5) Reviewed the results of operations of AEC and PCE and compared them with those of certain publicly traded companies that we deemed to be relevant;
- (6) Compared the proposed financial terms of the Transaction with the financial terms of certain other transactions which we deemed to be relevant;
- (7) Participated in certain discussions, negotiations, and due diligence meetings among representatives of AEC and PCE and their financial and legal advisors and auditors;
- (8) Reviewed the potential pro forma impact of the Merger;



- (9) Reviewed representations contained in a certificate addressed to us, dated as of the date hereof, from senior officers of each of AEC and PCE as to the completeness and accuracy of the information upon which this opinion is based;
- (10) Reviewed the draft Combination Agreement dated January 27, 2002 among AEC and PCE;
- (11) Reviewed such other financial studies and analyses and took into account such other matters as we deemed necessary, including our assessment of general economic, market and monetary conditions.

In preparing our opinion, we have assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to us, discussed with or reviewed by or for us, or publicly available, and we have not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of AEC or PCE or been provided with any such evaluation or appraisal. In addition, we have not conducted any physical inspection of the properties or facilities of AEC or PCE. With respect to the financial forecast information and the estimates of Expected Synergies provided to or discussed with us by AEC or PCE, we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of the management of AEC or PCE as to the expected future financial performance of AEC or PCE, as the case may be, and the Expected Synergies. We have assumed that the final form of the Combination Agreement will be substantially similar to the last draft reviewed by us. We have also assumed that the Merger will be consummated in accordance with the terms set forth in the Combination Agreement without any material modification or waiver and that the tax consequences as a result of the completion of the Merger will not result in a material adverse effect on PCE after the Merger has become effective.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to us as of, the date hereof. We have assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the Merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the Merger.

We are acting as financial advisor to AEC in connection with the Merger and will receive a fee from AEC for our services, a significant portion of which is contingent upon the consummation of the Merger. We are currently providing and have in the past provided financial advisory and financing services to AEC and/or its affiliates and may continue to do so and have received, and may receive, fees for the rendering of such services. We have in the past provided financial advisory and financing services to PCE and/or its affiliates and may continue to do so and have received, and may receive, fees for the rendering of such services. In addition, AEC has agreed to indemnify us for certain liabilities arising out of our engagement. In addition, in the ordinary course of our business, we may actively trade AEC common shares and PCE common shares, for our own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

This opinion is solely for the use and benefit of the Board of Directors of AEC, on behalf of AEC, in its evaluation of the Merger and shall not be used for any other purpose. Our opinion does not address the merits of the underlying decision by AEC to engage in the Merger. This opinion is not intended to be relied upon or confer any rights or remedies upon any employee, creditor, common shareholder or other equity holder of AEC, or any other party. This opinion is not, and should not be construed as, a recommendation to AEC common shareholders in respect of the Merger. We are not expressing any opinion herein as to the prices at which the AEC common shares and PCE common shares will trade following the announcement or consummation of the Merger.



This opinion is given as of the date hereof and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion which may come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting our opinion after the date hereof, we reserve the right to change, modify or withdraw our opinion.

On the basis of and subject to the foregoing, we are of the opinion that, as of the date hereof, the Consideration is fair from a financial point of view to holders of AEC common shares.

Very truly yours,

*Merrill Lynch, Pierce, Fenner & Smith
Incorporated*

Merrill Lynch, Pierce, Fenner & Smith
Incorporated



RBC Dominion Securities Inc.
Suite 1100, Bankers Hall West
888 - 3 Street S.W.
Calgary, Alberta T2P 5C5
Tel: (403) 299-7111
Fax: (403) 299-6900

January 27, 2002

The Board of Directors
PanCanadian Energy Corporation
150 - 9th Avenue S.W.
P.O. Box 2850
Calgary, AB
T2P 2S5

To the Board of Directors:

RBC Dominion Securities Inc. ("RBC"), a member company of RBC Capital Markets, understands that PanCanadian Energy Corporation (the "Company") and Alberta Energy Company Ltd. ("AEC") have entered into an agreement (the "Combination Agreement") dated as of January 27, 2002 to complete a merger transaction (the "Transaction") by way of a plan of arrangement. As a result of the Transaction, holders of common shares of AEC will receive 1.472 ("the Exchange Ratio") common shares of the Company ("Common Shares") for each common share of AEC held. The specific terms of the Transaction will be more fully described in a joint management information circular (the "Circular") to be mailed to holders ("Shareholders") of Common Shares in connection with the Transaction.

The Company has retained RBC as financial advisor to provide advice and assistance to the Company and the Board of Directors of the Company (the "Board") in evaluating the Transaction, including the preparation and delivery to the Board of RBC's opinion as to the fairness of the Exchange Ratio from a financial point of view to the Shareholders (the "Fairness Opinion"). RBC has not prepared a valuation of the Company or AEC or any of their respective securities or assets and the Fairness Opinion should not be construed as such.

Engagement

The Company initially contacted RBC regarding a potential advisory assignment in November, 2001, and RBC was formally engaged by the Company pursuant to an agreement between the Company and RBC (the "Engagement Agreement") dated as of November 19, 2001. The terms of the Engagement Agreement provide that RBC is to be paid a fee for its services as financial advisor, including fees that are contingent on the successful completion of the Transaction or certain other events. In addition, RBC is to be reimbursed for its reasonable out-of-pocket expenses and to be indemnified by the Company in certain circumstances. RBC consents to the inclusion of the Fairness Opinion in its entirety and a summary thereof in the Circular and to the filing thereof, as necessary, by the Company with the securities commissions or similar regulatory authorities in Canada and the United States.

Relationship with Interested Parties

Neither RBC, nor any of its affiliates is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Alberta)) of the Company, AEC or any of their respective associates or affiliates. RBC has not been engaged to provide any financial advisory services nor has it participated in any financing involving the Company, AEC or any of their respective associates or affiliates, within the past two years, other than the services provided under the Engagement Agreement and as described herein. RBC provided advice and assistance to the Company in 2001 in connection with the redistribution of an indirect interest in the Company held by Canadian Pacific Limited (“CPL”) of approximately 85% (the “CPL Arrangement”) and was an underwriter of the Company’s US\$850 million subordinated notes issue in October, 2001. RBC was lead manager of AEC’s \$200 million medium term note issue in October, 2001; co-lead manager of AEC’s \$200 million capital securities issue in December 2000; co-lead manager of AEC’s \$200 million medium term note issue in December, 2000; co-lead manager of AEC’s \$230 million capital securities issue in July, 2000 and co-lead manager of AEC’s \$100 million medium term note issue in June, 2000. Prior to October 3, 2001, the Company was an affiliate of CPL. RBC has provided certain financial advisory services and participated in financings involving CPL and its affiliates over the past two years including acting as financial advisor to CPL in connection with the CPL Arrangement. There are no understandings, agreements or commitments between RBC and the Company, AEC or any of their respective associates or affiliates with respect to any future business dealings. RBC may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the Company, AEC or any of their respective associates or affiliates. The Royal Bank of Canada, controlling shareholder of RBC, provides banking services to the Company and AEC in the normal course of business.

RBC acts as a trader and dealer, both as principal and agent, in major financial markets and, as such, may have had and may in the future have positions in the securities of the Company, AEC or any of their respective associates or affiliates and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it received or may receive compensation. As an investment dealer, RBC conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including with respect to the Company, AEC or the Transaction.

Credentials of RBC

RBC is one of Canada’s largest investment banking firms, with operations in all facets of corporate and government finance, corporate banking, mergers and acquisitions, equity and fixed income sales and trading and investment research. The Fairness Opinion expressed herein represents the opinion of RBC and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

Scope of Review

In connection with our Fairness Opinion, we have reviewed and relied upon or carried out, among other things, the following:

1. the most recent draft, dated January 26, 2002, of the Combination Agreement including the plan of arrangement attached thereto (the “Draft Combination Agreement”);
2. audited financial statements of the Company for each of the years ended December 31, 1996, 1997, 1998, 1999 and 2000 and draft unaudited financial statements for the year ended December 31, 2001;
3. audited financial statements of AEC for each of the years ended December 31, 1996, 1997, 1998, 1999 and 2000;
4. unaudited interim reports of the Company and AEC for each of the quarters ending March 31, June 30 and September 30, 2001;
5. annual reports of the Company and AEC for each of the years ended December 31, 1999 and 2000;
6. annual information forms of the Company and AEC for each of the years ended December 31, 1999 and 2000;
7. the Notice of Special Meeting of Shareholders, Notice of Petition and Management Proxy Circular of the Company with respect to the CPL Arrangement, dated August 3, 2001;
8. the Notice of Special Meeting of Shareholders, Notice of Petition and Management Proxy Circular of CPL with respect to the CPL Arrangement, dated August 3, 2001;
9. the Notice of Annual Meeting of Shareholders and Management Proxy Circulars of the Company for each of the years ended December 31, 1999 and 2000;
10. the Notice of Annual and Special Meeting of Shareholders and Management Information Circulars of AEC for each of the years ended December 31, 1999 and 2000;
11. historical segmented financial statements of the Company and AEC for each of the years ended December 31, 1999 and 2000;
12. internal management budgets of the Company and AEC on a consolidated and segmented basis for the year ending December 31, 2002;
13. unaudited projected financial statements for the Company on a consolidated basis prepared by management of the Company for each of the years ending December 31, 2003 through December 31, 2006;
14. unaudited projected financial statements for AEC on a consolidated basis prepared by management of AEC for each of the years ending December 31, 2003 through December 31, 2005;
15. discussions with senior management of the Company and AEC;
16. discussions with the auditors and legal counsel of the Company and AEC;
17. public information relating to the business, operations, financial performance and stock trading history of the Company, AEC and other selected public companies considered by us to be relevant;

18. public information with respect to other transactions of a comparable nature considered by us to be relevant;
19. public information regarding the oil and gas industry;
20. representations contained in certificates addressed to us, dated as of the date hereof, from senior officers of the Company and AEC respectively as to the completeness and accuracy of the information upon which the Fairness Opinion is based; and
21. such other corporate, industry and financial market information, investigations and analyses as RBC considered necessary or appropriate in the circumstances.

RBC has not, to the best of its knowledge, been denied access by the Company or AEC to any information requested by RBC.

Assumptions and Limitations

With the Board's approval and as provided for in the Engagement Agreement, RBC has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions or representations obtained by it from public sources, senior management of the Company and AEC, and their respective consultants and advisors (collectively, the "Information"). The Fairness Opinion is conditional upon such completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment and except as expressly described herein, we have not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information.

Senior officers of the Company have represented to RBC in a certificate delivered as of the date hereof, among other things, that (i) the Information (as defined above) provided orally by, or in the presence of, an officer or employee of the Company or in writing by the Company or any of its subsidiaries or their respective agents to RBC relating to the Company, its subsidiaries or the Transaction for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to RBC, and is at the date hereof or was, at the date of preparation, complete, true and correct in all material respects, and did not and does not, as the case may be, contain any untrue statement of a material fact in respect of the Company, its subsidiaries or the Transaction and did not and does not omit to state a material fact in respect of the Company, its subsidiaries or the Transaction necessary to make the Information not misleading in light of the circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to RBC or prepared, except as disclosed in writing to RBC, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its subsidiaries, taken as a whole, and no material change has occurred in the Information or any part thereof which would reasonably be expected to have a material effect on the Fairness Opinion.

Senior officers of AEC have represented to RBC in a certificate delivered as of the date hereof, among other things, that (i) the Information (as defined above) provided orally by, or in the presence of, an officer or employee of AEC or in writing by AEC or any of its subsidiaries or their respective agents to RBC relating to AEC, its subsidiaries or the Transaction for the purpose of preparing the Fairness Opinion was, at the date the Information was provided to RBC, and is at the date hereof or was, at the date of preparation, complete, true and correct in all material respects, and did not and does not, as the case may be, contain any untrue statement of a material fact in respect of AEC, its subsidiaries or the Transaction and did not and does not omit to state a material fact in respect of AEC, its subsidiaries or the Transaction necessary to make the Information not misleading in light of the circumstances under which the Information was made or provided; and that (ii) since the dates on which the Information was provided to RBC or prepared, except as disclosed in writing to RBC, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of AEC or any of its subsidiaries, taken as a whole, and no material change has occurred in the Information or any part thereof which would reasonably be expected to have a material effect on the Fairness Opinion.

In preparing the Fairness Opinion, RBC has made several assumptions, including that all of the conditions required to implement the Transaction will be met.

The Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the Company, AEC and their respective subsidiaries and affiliates, as they were reflected in the Information and as they have been represented to RBC in discussions with management of the Company and AEC. In its analyses and in preparing the Fairness Opinion, RBC made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of RBC or any party involved in the Transaction.

The Fairness Opinion has been provided for the use of the Company and the Board and may not be used by any other person or relied upon by any other person other than the Company and the Board without the express prior written consent of RBC. The Fairness Opinion is given as of the date hereof and RBC disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to RBC's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, RBC reserves the right to change, modify or withdraw the Fairness Opinion.

RBC believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any Shareholder as to whether to vote in favour of the Transaction.

Fairness Analysis


Approach to Fairness

In considering the fairness of the Exchange Ratio from a financial point of view to the Shareholders, RBC, among other analyses, (i) compared the relative contribution of assets, cash flow, earnings, net asset value, production and reserves by the Company and by AEC to the proforma relative ownership of Common Shares by the Shareholders and the holders of common shares of AEC assuming the Transaction is completed; (ii) compared the Exchange Ratio to the historical relative trading values of the Common Shares and the common shares of AEC; and (iii) compared the potential trading values of the Common Shares assuming the Transaction is completed to the recent market trading values of the Common Shares. RBC did not believe it would be appropriate and hence did not complete an en bloc value analysis of the Company given that the Transaction is a merger of equals and Shareholders will continue to have the opportunity to participate in any future en bloc transactions.

Fairness Conclusion

Based upon and subject to the foregoing, RBC is of the opinion that, as of the date hereof, the Exchange Ratio is fair from a financial point of view to the Shareholders.

Yours very truly,

A handwritten signature in dark ink that reads "RBC Dominion Securities Inc." in a cursive, slightly stylized font.

RBC DOMINION SECURITIES INC.

January 27, 2002

Board of Directors
PanCanadian Energy Corporation
PanCanadian Energy Plaza
150 - 9th Avenue SW
Calgary, Alberta
T2P 3S5

Members of the Board:

You have asked us to advise you with respect to the fairness to PanCanadian Energy Corporation (the "Company") from a financial point of view of the Exchange Ratio (as defined below) set forth in the Combination Agreement, dated as of January 27, 2002 (the "Combination Agreement"), between Alberta Energy Company Ltd. ("AEC") and the Company, including the related Plan of Arrangement under section 193 of the Business Corporations Act (Alberta) attached as an exhibit thereto (the "AEC Plan of Arrangement" and, together with the Combination Agreement, the "Transaction Documents"). Pursuant to the Transaction Documents, 1.472 (the "Exchange Ratio") common shares of the Company ("PanCanadian Common Shares") will be issued and exchanged for each outstanding AEC Common Share and AEC will become an indirect wholly-owned subsidiary of the Company (the "Transaction").

In arriving at our opinion, we have reviewed certain publicly available business and financial information relating to the Company and AEC as well as the Transaction Documents. We have also reviewed certain other information including financial forecasts, provided to or discussed with us by the Company and AEC, and have met with the Company's and AEC's management to discuss the business and prospects of the Company and AEC.

We have also considered certain financial and stock market data of the Company and AEC, and we have compared those data with similar data for other publicly held companies in businesses similar to the Company and AEC and we have considered the financial terms of certain other business combinations and other transactions which have recently been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant. We have also relied upon the views of the Company's and AEC's management concerning the business, operational and strategic benefits and implications of the Transaction.

Board of Directors
PanCanadian Energy Corporation
January 27, 2002
Page 2

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's and AEC's managements as to the future financial performance of the Company and AEC and as to the cost savings and other potential synergies (including the amount, timing and achievability thereof) anticipated to result from the Transaction. We have assumed, with your consent, that the Transaction will be consummated in accordance with the terms of the Transaction Documents without amendment, modification or waiver of any term, condition or agreement therein and that in the course of obtaining any necessary regulatory and third party consents and approvals for the Transaction, no delay, limitation, restriction or condition will be imposed that will have an adverse effect on the Company or AEC or the contemplated benefits of the Transaction. You have informed us, and we have assumed, that the Transaction will be treated as a tax free transaction for the Company and the Company's shareholders for Canadian federal income tax purposes. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or AEC nor have we been furnished with any such evaluations or appraisals. Our opinion is necessarily based upon information available to us and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Our opinion does not address the Company's underlying business decision to engage in the Transaction or the relative merits of the Transaction as compared to other transactions and business strategies that might be available to the Company. We are not expressing any opinion as to the actual value of the PanCanadian Common Shares when issued to the holders of AEC Common Shares pursuant to the Transaction or the prices at which such PanCanadian Common Shares will trade at any time. In connection with our engagement, we were not requested to approach third parties to solicit, and did not solicit, indications of interest in a possible acquisition of the Company.

We have acted as financial advisor to the Company in connection with the Transaction and will receive a fee for our services, a significant portion of which is contingent upon completion of the Transaction.

We and our affiliates have in the past provided, and may in the future provide, investment banking and financial services to the Company and

Board of Directors
PanCanadian Energy Corporation
January 27, 2002
Page 3

AEC, for which we have received, and expect to receive, compensation. In the ordinary course of our business, we and our affiliates may actively trade the debt and equity securities of both the Company and AEC for our and such affiliates own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is solely for the information of the Board of Directors of the Company in connection with its consideration of the Transaction and does not constitute a recommendation to any holder of PanCanadian Common Shares as to how to vote or act on any matter relating to the Transaction.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair to the Company from a financial point of view.

Very truly yours,

CREDIT SUISSE FIRST BOSTON CORPORATION

APPENDIX F

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

ENCANA CORPORATION
(formerly PanCanadian Energy Corporation)
Unaudited Pro Forma Consolidated Financial Statements
Compilation Report

To the Directors of PanCanadian Energy Corporation and Alberta Energy Company Ltd.

We have reviewed, as to compilation only, the accompanying unaudited Pro Forma Consolidated Balance Sheet of EnCana Corporation as at December 31, 2001 and the unaudited Pro Forma Consolidated Statements of Earnings and Cash from Operating Activities for the year ended December 31, 2001, which have been prepared for inclusion in this Joint Information Circular. In our opinion, the unaudited Pro Forma Consolidated Balance Sheet and the unaudited Pro Forma Consolidated Statements of Earnings and Cash from Operating Activities have been properly compiled to give effect to the proposed transaction and the assumptions described in the notes thereto.

Pricewaterhousecoopers LLP

Chartered Accountants
Calgary, Alberta, Canada
February 21, 2002

**Comments for United States Readers on Differences Between
Canadian and United States Reporting Standards**

The above opinion, provided solely pursuant to Canadian requirements, is expressed in accordance with standards of reporting generally accepted in Canada. Such standards contemplate the expression of an opinion with respect to the compilation of Pro Forma Financial Statements. United States standards do not provide for the expression of an opinion on the compilation of Pro Forma Financial Statements. To report in conformity with United States standards on the reasonableness of pro forma adjustments and their application to the Pro Forma Financial Statements would require an examination or review which would be substantially greater in scope than the review as to compilation only that we have conducted. Consequently, under United States standards, we would be unable to express any opinion with respect to the compilation of the accompanying unaudited Pro Forma Consolidated Balance Sheet and the unaudited Pro Forma Consolidated Statements of Earnings and Cash from Operating Activities.

Pricewaterhousecoopers LLP

Chartered Accountants
Calgary, Alberta, Canada
February 21, 2002

ENCANA CORPORATION
PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)
(\$ millions, except per share amounts)

	PanCanadian Year Ended December 31, 2001	AEC Year Ended December 31, 2001	Pro Forma Adjustments		EnCana Pro Forma Consolidated
			Note 3	Note 4	
Revenues, net of royalties and production taxes					
Upstream	\$ 3,251	\$4,519	\$(1,158) (c)(i) 5 (c)(iv) 90 (c)(ii)	\$ –	\$ 6,707
Midstream and Marketing	6,801	1,753	123 (a) 1,158 (c)(i) 74 (c)(ii)	–	9,909
Other	46	–	14 (b) 6 (c)(iv) (35) (c)(v) (34) (c)(vi)	–	(3)
	<u>10,098</u>	<u>6,272</u>	<u>243</u>	<u>–</u>	<u>16,613</u>
Expenses					
Transportation and selling	–	301	269 (c)(ii)	–	570
Direct	7,031	–	(7,031) (c)(iii)	–	–
Operating	–	917	673 (c)(iii)	–	1,590
Cost of product purchased	–	2,289	37 (a) (105) (c)(ii) 6,358 (c)(iii)	–	8,579
General and administrative	157	80	–	–	237
Interest, net	98	256	(35) (c)(v) (19) (b)	36 (e)	336
Foreign exchange	–	112	51 (b) (34) (c)(vi)	–	129
Provision for doubtful accounts	–	36	11 (c)(iv)	–	47
Depreciation, depletion and amortization	<u>856</u>	<u>1,252</u>	<u>–</u>	<u>–</u>	<u>2,108</u>
Earnings Before the Undernoted	1,956	1,029	68	(36)	3,017
Gain on sale of assets	–	238	–	–	238
Income tax expense (recovery)	<u>652</u>	<u>443</u>	<u>37 (a)</u>	<u>(15) (e)</u>	<u>1,117</u>
Net Earnings	1,304	824	31	(21)	2,138
Distributions on preferred securities, net of tax	4	42	–	(21) (e)	25
Net Earnings Attributable to Common Shareholders	\$ 1,300	\$ 782	\$ 31	\$ –	\$ 2,113
Earnings per Common Share					
Basic	<u>\$ 5.09</u>	<u>\$ 5.24</u>			<u>\$ 4.46</u>
Diluted	<u>\$ 5.00</u>	<u>\$ 4.98</u>			<u>\$ 4.37</u>

ENCANA CORPORATION
PRO FORMA CONSOLIDATED BALANCE SHEET

(Unaudited)
(\$ millions)

	PanCanadian As at December 31, 2001	AEC As at December 31, 2001	Pro Forma Adjustments		EnCana Pro Forma Consolidated
			Note 3	Note 4	
Assets					
Current Assets					
Cash and cash equivalents	\$ 963	\$ 104	\$ –	\$ –	\$ 1,067
Accounts receivable and accrued revenue, net	841	984	–	–	1,825
Risk management assets	414	–	249 (a)	–	663
Inventories	157	321	–	–	478
	<u>2,375</u>	<u>1,409</u>	<u>249</u>	<u>–</u>	<u>4,033</u>
Capital Assets, net	8,171	11,867	–	1,382 (a)	21,420
Investments and Other Assets	313	822	(59) (b)	–	1,076
Goodwill	–	–	–	2,704 (a)	2,704
	<u>\$10,859</u>	<u>\$14,098</u>	<u>\$ 190</u>	<u>\$4,086</u>	<u>\$29,233</u>
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable and accrued liabilities	\$ 990	\$ 1,043	\$ –	\$ 150 (a)	\$ 2,183
Income taxes payable	656	242	–	–	898
Risk management liabilities	378	–	163 (a)	–	541
Current portion of other liabilities	40	–	–	–	40
Current portion of long-term debt	160	49	–	–	209
	<u>2,224</u>	<u>1,334</u>	<u>163</u>	<u>150</u>	<u>3,871</u>
Long-Term Debt	2,118	3,658	–	61 (a)	6,286
				449 (e)	
Project Financing Debt	–	584	–	11 (a)	595
Other Liabilities	419	204	–	–	623
Future Income Taxes	2,060	2,361	37 (a)	490 (a)	4,948
	<u>6,821</u>	<u>8,141</u>	<u>200</u>	<u>1,161</u>	<u>16,323</u>
Shareholders' Equity					
Preferred securities	126	859	–	53 (a)	589
				(449) (e)	
Share capital	196	3,052	–	(3,052) (a)	8,664
			–	8,468 (a)	
Paid in surplus	27	–	–	–	27
Retained earnings	3,689	1,788	49 (a)	(1,837) (a)	3,630
			(59) (b)		
Foreign currency translation adjustment	–	258	–	(258) (a)	–
	<u>4,038</u>	<u>5,957</u>	<u>(10)</u>	<u>2,925</u>	<u>12,910</u>
	<u>\$10,859</u>	<u>\$14,098</u>	<u>\$ 190</u>	<u>\$4,086</u>	<u>\$29,233</u>

ENCANA CORPORATION
PRO FORMA CONSOLIDATED STATEMENT OF CASH FROM OPERATING ACTIVITIES
(Unaudited)
(\$ millions, except per share amounts)

	PanCanadian Year Ended December 31, 2001	AEC Year Ended December 31, 2001	Pro Forma Adjustments		EnCana Pro Forma Consolidated
			Note 3	Note 4	
Operating Activities					
Net earnings	\$ 1,304	\$ 824	\$ 31	\$(21) (e)	\$2,138
Depreciation, depletion and amortization	856	1,252		—	2,108
Future income taxes	144	29	37 (a)	—	210
Gain on sale of assets	—	(238)		—	(238)
Cash tax on sale of assets	—	57		—	57
Other	2	99	18 (b)	—	119
Cash Flow	\$ 2,306	\$2,023	\$ 86	\$(21)	\$4,394
Net change in deferred items	(96)	—			(96)
Net change in non-cash working capital	564	477	(86) (a)	150 (a)	1,105
Cash from Operating Activities	\$ 2,774	\$2,500	\$—	\$129	\$5,403
Cash Flow per Common Share					
Basic	\$ 9.02	\$13.55			\$ 9.28
Diluted	\$ 8.82	\$12.57			\$ 9.08

ENCANA CORPORATION
(formerly PanCanadian Energy Corporation)
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
(Unaudited)

1. BASIS OF PRESENTATION

These unaudited Pro Forma Consolidated Financial Statements have been prepared for inclusion in the Joint Information Circular concerning the merger of Alberta Energy Company Ltd. (AEC) and PanCanadian Energy Corporation (PanCanadian).

The unaudited Pro Forma Consolidated Financial Statements have been prepared from:

- (a) PanCanadian's audited consolidated financial statements as at and for the year ended December 31, 2001
- (b) AEC's audited consolidated financial statements as at and for the year ended December 31, 2001

In the opinion of Management of both PanCanadian and AEC these unaudited Pro Forma Consolidated Financial Statements include all adjustments necessary for fair presentation in accordance with Canadian generally accepted accounting principles. The unaudited Pro Forma Consolidated Balance Sheet gives effect to the transaction described in Note 4 as if it had occurred on December 31, 2001. The unaudited Pro Forma Consolidated Statements of Earnings and Cash from Operating Activities give effect to the transaction as if it occurred on January 1, 2001.

These unaudited Pro Forma Consolidated Financial Statements may not be indicative of the results that actually would have occurred if the events reflected therein had been in effect on the dates indicated or of the results that may be obtained in the future.

These unaudited Pro Forma Consolidated Financial Statements should be read in conjunction with the consolidated financial statements of PanCanadian and AEC contained in the Joint Information Circular.

2. PRINCIPLES OF CONSOLIDATION

These unaudited Pro Forma Consolidated Financial Statements have been prepared on the basis that PanCanadian will account for the transaction as a purchase of AEC using the purchase method of accounting. Accordingly, the assets and liabilities of AEC will be recorded at their estimated fair value.

In completing the transaction, PanCanadian will issue 1.472 Common Shares for each issued and outstanding Common Share of AEC.

3. PRO FORMA ACCOUNTING AND PRESENTATION ADJUSTMENTS AND ASSUMPTIONS

PanCanadian and AEC prepare their consolidated financial statements using similar accounting policies and presentation with the exception of the items noted below. The following accounting policy and financial statement presentation adjustments have been made to conform the accounting.

(a) Mark-to-Market Accounting for Midstream and Marketing Activities

PanCanadian accounts for its Midstream and Marketing activities using mark-to-market accounting. Certain of AEC's activities related to Midstream and Marketing, specifically purchased gas marketing and gas storage optimization activities, have been restated to a mark-to-market basis of accounting.

(b) Accounting for Foreign Currency Translation

Effective December 31, 2001, AEC early adopted the amendments to the Canadian accounting standard for foreign currency translation. As required by the standard, all prior periods were restated. PanCanadian's financial statements have been adjusted to reflect the early adoption of this standard.

ENCANA CORPORATION
(formerly PanCanadian Energy Corporation)
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2001
(Unaudited)

3. PRO FORMA ACCOUNTING AND PRESENTATION ADJUSTMENTS AND ASSUMPTIONS
(continued)

(c) Financial Statement Presentation Adjustments

- (i) To be consistent with PanCanadian's presentation, revenues associated with AEC's purchased gas activity have been reclassified from Upstream revenue.
- (ii) To be consistent with AEC's presentation, PanCanadian's Transportation and selling expenses have been reclassified from Upstream and Midstream and Marketing revenues and Cost of product purchased.
- (iii) To be consistent with AEC's presentation, PanCanadian's Operating expenses and Cost of product purchased have been reclassified from Direct expenses.
- (iv) To be consistent with AEC's presentation, PanCanadian's Provision for doubtful accounts have been reclassified from Upstream revenue (\$5 million) and Other revenue (\$6 million).
- (v) To be consistent with AEC's presentation, PanCanadian's interest revenue has been reclassified from Other revenue.
- (vi) To be consistent with AEC's presentation, PanCanadian's net foreign exchange gain has been reclassified from Other revenue.

ENCANA CORPORATION
(formerly PanCanadian Energy Corporation)
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2001
(Unaudited)

4. PRO FORMA ACQUISITION ADJUSTMENTS AND ASSUMPTIONS

- (a) The purchase of AEC for aggregate consideration of \$8,618 million comprising 217.6 million Common Shares of PanCanadian based on the exchange ratio of 1.472 PCE Common Shares for each AEC Common Share.

	<u>\$ Million</u>
Calculation and preliminary allocation of purchase price:	
PanCanadian Common Shares issued to AEC shareholders (million)	217.6
Price of PanCanadian Common Shares (\$ per Common Share)	38.43
Value of PanCanadian Common Shares issued	\$ 8,364
Fair value of AEC Share Options exchanged for Share Options of EnCana Corporation	104
Transaction costs	<u>150</u>
Total Purchase Price	8,618
Plus: Fair value of liabilities assumed by PanCanadian	
Current liabilities	1,497
Long-term debt	3,719
Project financing debt	595
Preferred securities	423
Capital securities	489
Other non-current liabilities	204
Future income taxes	<u>2,888</u>
Total Purchase Price and Liabilities assumed	<u>\$18,433</u>
Fair value of assets acquired:	
Current assets	\$ 1,658
Capital assets	13,249
Other non-current assets	822
Goodwill	<u>2,704</u>
Total fair value of assets acquired	<u>\$18,433</u>

- (b) The number of issued and outstanding AEC Common Shares on the date of the transaction has been assumed to be 147.9 million. This assumes that none of the outstanding options to purchase AEC Common Shares are exercised and converted to AEC Common Shares prior to the date of the transaction.
- (c) The number of issued and outstanding options to purchase AEC Common Shares on the date of the transaction has been assumed to be 9.9 million. The fair value of these options has been included in the calculation of the purchase price. The fair value of these options was estimated using the Black-Scholes option pricing model with the same assumptions as disclosed in Note 13 of the Notes to the AEC 2001 Consolidated Financial Statements. The fair value of these options was calculated to be \$104 million.
- (d) The total purchase price includes the value of the PanCanadian Common Shares to be issued to the AEC shareholders plus the cash costs of completing the transaction. These costs, estimated to be \$150 million, include investment advisor fees, legal and accounting fees, printing and mailing costs and

ENCANA CORPORATION
(formerly PanCanadian Energy Corporation)
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2001
(Unaudited)

4. PRO FORMA ACQUISITION ADJUSTMENTS AND ASSUMPTIONS (continued)

other transaction related costs. These costs have been added to Accounts payable and accrued liabilities on the unaudited Pro Forma Consolidated Balance Sheet.

- (e) Included in AEC's Preferred securities are \$430 million principal amount of Capital Securities which are convertible, at the option of the holder, into Common Shares of AEC. AEC also has the option to repay both interest and principal through the issuance of Common Shares. These securities are treated as equity for accounting purposes and distributions in respect of these securities, net of income tax, are charged directly to Retained earnings. Immediately prior to the closing of the transaction, AEC will supplement the Trust Indenture covering these securities to remove AEC's option to pay interest and principal through the issuance of Common Shares. With the removal of this option, these securities are treated as Long-Term Debt and distributions are recorded as interest expense in the unaudited Pro Forma Consolidated Financial Statements.
- (f) Future income tax expense has been adjusted for the impact of the items noted above that affect current year net earnings.
- (g) No adjustment has been made to reflect operating synergies that may be realized as a result of the transaction.
- (h) The increase in the carrying value of Capital Assets relates to unproved properties and therefore no adjustment has been made to Depreciation, depletion and amortization.

The purchase price allocation is preliminary and may change as a result of several factors, including:

- changes in the fair values of AEC's assets and liabilities between December 31, 2001 and the closing of the transaction;
- actual number of AEC Common Shares and options to acquire AEC Common Shares outstanding at the date of the closing;
- actual transaction costs incurred.

These changes will not be known until the completion of the transaction. However, Management of PanCanadian and AEC do not believe that the final purchase price allocation will differ materially from that presented in the unaudited Pro Forma Consolidated Financial Statements.

5. GOODWILL

The preliminary purchase price allocation includes approximately \$2.7 billion of Goodwill. As required under Canadian generally accepted accounting principles, goodwill will not be amortized into income. However, goodwill will be subject to an annual impairment review and should there be an impairment, that amount would be charged to income.

As stated in Note 4, the allocation of the purchase price presented is preliminary. EnCana will finalize the purchase price allocation after closing the transaction. Prior to that time, Management of PanCanadian and AEC may determine that there are intangible assets acquired in the transaction, separate and apart from goodwill. To the extent that such intangibles, if any, have definite useful lives, the value assigned to them will be amortized into income over those useful lives. Although the amount allocated to such intangibles, if any, will not be known until the closing of the transaction, Management of PanCanadian and AEC do not believe that any such value, or the related amortization expense, would have a material effect on the unaudited Pro Forma Consolidated Financial Statements presented.

APPENDIX G

INFORMATION RELATING TO ALBERTA ENERGY COMPANY LTD.

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Alberta Energy Company Ltd.

ANNUAL INFORMATION FORM

February 20, 2002

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Information Form (the “AIF”) contains certain forward-looking statements within the meaning of the *United States Private Securities Litigation Reform Act of 1995*. Forward-looking statements are typically identified by words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this AIF include, but are not limited to, statements with respect to: the timing and successful completion of construction of the Oleoducto de Crudos Pesados pipeline, the timing and successful completion of Alberta Energy Company Ltd.’s proposed merger with PanCanadian Energy Corporation, capital investment levels and the allocation thereof, exploration investment and the geographic allocation thereof, the number of wells to be drilled and the timing thereof, Foster Creek and Syncrude production levels and the timing of achieving such levels, the timing and cost (and AEC’s share of such cost) of expanding the Syncrude upgrader complex, the quality improvements, enhanced marketability and improved environmental performance resulting from the Syncrude upgrader expansion, pipeline capacity, reserve estimates, oil and natural gas prices, the percentage of natural gas sales to be completed at fixed prices, AECO C based prices and NYMEX based prices, the cost and timing of completion of the ethane deep cut expansion at the Empress Saddle Plant and the resulting production levels, the timing of completion of the Wild Goose Storage Inc. expansion, the suspension of Argentine dividend receipts and the impact thereof on AEC, the leased capacity at the National Gas Pipeline Company of America storage facilities and the timing of achieving such capacity, the level of material expenditures for compliance with environmental regulations, site restoration costs, future operating results and various components thereof.

Readers are cautioned not to place undue reliance on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although AEC believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this AIF include, but are not limited to: volatility of oil and gas prices, fluctuations in currency and interest rates, product supply and demand, market competition, risks inherent in AEC’s North American and foreign oil and gas and midstream operations, risks inherent in AEC’s marketing operations, imprecision of reserves estimates, AEC’s ability to replace and expand oil and gas reserves, AEC’s ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital, general economic and business conditions, AEC’s ability to enter into or renew leases, the timing and costs of well and pipeline construction, AEC’s ability to make capital investments and the amounts of capital investments, imprecision in estimating the timing, costs and levels of production and drilling, the results of exploration, development and drilling, imprecision in estimates of future production capacity, AEC’s ability to secure adequate product transportation, uncertainty in the amounts and timing of royalty payments, imprecision in estimates of product sales, changes in environmental and other regulations, political and economic conditions in the countries in which AEC operates including Ecuador, and such other risks and uncertainties described from time to time in AEC’s reports and filings with the Canadian securities authorities and the United States Securities and Exchange Commission (the “SEC”). Accordingly, AEC cautions that events or circumstances could cause actual results to differ materially from those predicted. Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of important factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements contained in this AIF, which is as of the date hereof, and AEC undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this AIF are expressly qualified by this cautionary statement.

ITEM 2 CORPORATE STRUCTURE

NAME and INCORPORATION

Alberta Energy Company Ltd. ("AEC" or the "Corporation") was incorporated on September 18, 1973 under *The Companies Act* (Alberta) and was continued under the *Business Corporations Act* (Alberta) on September 30, 1986. AEC amalgamated with its wholly owned subsidiary Chieftain Development Co. Ltd., on January 1, 1989, with its wholly owned subsidiaries, Chieftain Energy Resources Ltd. and Stealth Resources Limited, on January 1, 1998, and with its wholly owned subsidiary, AEC Energy Resources Ltd., on January 1, 1999. The amalgamated corporation continues under the name Alberta Energy Company Ltd.

In 1993, the Government of Alberta sold all of its approximate 36 percent ownership interest in AEC. In 1993, the Articles of Amalgamation of AEC were amended and restated to, among other things, increase the authorized common share capital to an unlimited number, provide for a minimum of 10 directors and a maximum of 12 directors, and remove references to the *Alberta Energy Company Act* which was repealed in 1993. The By-Laws of AEC were amended to reflect, among other things, the repeal of the *Alberta Energy Company Act*, and to provide that the registered office and principal executive offices of AEC would remain in Alberta. The Articles of Amalgamation effective January 1, 1999 and the amended By-Laws constitute the current charter of AEC. The shareholders of AEC approved a Shareholder Rights Plan at the Annual and Special Meeting of Shareholders held on April 13, 1994. The shareholders reconfirmed and approved an amended and restated Shareholder Rights Plan at the Annual and Special Meeting of Shareholders held on April 21, 1999. A summary of the principal terms of the amended and restated Shareholder Rights Plan is contained in the Information Circular dated February 17, 1999 relating to such Annual and Special Meeting of Shareholders.

The executive and registered office of AEC is located at 3900, 421 - 7th Avenue S.W., Calgary, Alberta, Canada T2P 4K9.

INTERCORPORATE RELATIONSHIPS

The following table presents the name, the percentage of voting securities owned and the jurisdiction of incorporation or formation of AEC's principal subsidiaries and partnerships with total assets, on a consolidated basis, that exceed \$100 million as at December 31, 2001:

<u>Subsidiaries and Partnerships</u>	<u>Percent Owned⁽¹⁾</u>	<u>Jurisdiction of Incorporation or Formation</u>
AEC Oil & Gas Partnership	100	Alberta
AEC Oil Sands, L.P.	100	Alberta
AEC Oil Sands Limited Partnership	75	Alberta
AEC Overseas Resources Ltd.	100	Alberta
AEC Global Holdings (Bermuda) Ltd.	100	Bermuda
Alberta Energy International Ltd.	100	Bermuda
AEC Ecuador Ltd.	100	Barbados
City Oriente Limited	100	Barbados
AEC Pipelines (Cold Lake) Ltd.	100	Alberta
AEC West Ltd.	100	Alberta
Alenco Inc.	100	Delaware
AEC Pipelines (USA) Inc.	100	Delaware
Express Holdings (USA) Inc.	100	Delaware
Express Pipeline LLC	100	Delaware
Platte Pipe Line Company	100	Delaware
AEC Oil & Gas (USA) Inc.	100	Delaware
McMurry Oil Company	100	Wyoming
AEC Storage and Hub Services Inc.	100	Delaware
Wild Goose Storage Inc.	100	Delaware
AEC Pipelines Ltd.	100	Alberta
Express Pipeline Ltd.	100	Canada
Express Pipeline Limited Partnership	100	Alberta

(1) Includes indirect ownership.

The above table does not include all of the subsidiaries and partnerships of AEC. The assets and revenues of unnamed subsidiaries and partnerships in the aggregate did not exceed 20 percent of the total consolidated assets or total consolidated revenues of AEC as at and for the year ended December 31, 2001.

In the following Items, reference to "AEC" or to "Corporation" includes, where applicable, reference to subsidiaries of and partnership interests held by Alberta Energy Company Ltd. and its subsidiaries.

ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

AEC's business is conducted in two main industry groups: the Upstream group is comprised of crude oil and natural gas exploration, production and marketing, and the Midstream group consists of pipeline transportation, natural gas processing and natural gas storage.

UPSTREAM

AEC is one of North America's largest independent upstream oil and gas exploration and production companies and has been carrying on business since 1975. The Corporation's upstream activities are comprised of three growth platforms: the Western Canada Growth Platform, the U.S. Rockies Growth Platform and the Ecuador Growth Platform. New Ventures groups are exploring for potential new growth platforms in Alaska, the Mackenzie Delta, the Gulf of Mexico, Azerbaijan and Bahrain. In addition, these groups are seeking other opportunities in the Middle East. AEC also markets crude oil, natural gas and natural gas liquids ("NGLs") for consumption in Canada and the United States of America ("U.S.").

Western Canada Growth Platform

AEC has continued to pursue exploration and development of gas and oil in the plains area of the Western Canada Sedimentary Basin; medium to deep natural gas and NGLs in northeast British Columbia and the western Alberta foothills; thermal recovery of oil at Foster Creek in northeast Alberta; and oil sands development through AEC's 13.75 percent interest in the Syncrude Joint Venture ("Syncrude") near Fort McMurray in northeast Alberta. AEC has also begun evaluating the potential for coalbed methane development in eastern British Columbia.

In May 2000, AEC acquired all of the issued and outstanding shares of Westpoint Energy Inc. ("Westpoint"). At the date of acquisition, Westpoint's principal producing properties were located at Peter/Meyer, Negus, Slave Lake and Rainbow, Alberta. As of February 1, 2001, Westpoint had commenced winding up into AEC.

U.S. Rockies Growth Platform

In June 2000, AEC Oil & Gas (USA) Inc., an indirect wholly owned subsidiary of AEC, established the U.S. Rockies Growth Platform through the acquisition of all of the shares of McMurry Oil Company and other private interests ("McMurry"). McMurry's principal producing properties are in the Jonah natural gas field located in the Green River Basin of southwest Wyoming.

In February 2001, AEC Oil & Gas (USA) Inc., through its wholly owned subsidiary Mapleleaf Transactions, Inc. ("Mapleleaf"), acquired all of the shares of Ballard Petroleum LLC ("Ballard") for net cash consideration of approximately \$328 million. Ballard's principal producing properties are in the Mamm Creek natural gas field located in the Piceance Basin of northwest Colorado. On December 31, 2001, Mapleleaf and Ballard were wound up into AEC Oil & Gas (USA) Inc.

Ecuador Growth Platform

AEC is involved in oil exploration, development and production primarily in the Oriente Basin in Ecuador. AEC established its Ecuador Growth Platform in May 1999 with the acquisition of all the issued and outstanding common shares of Pacalta Resources Ltd. ("Pacalta"). Indirect, wholly owned subsidiaries of AEC own two large concessions in the Oriente Basin of Ecuador, known as the Tarapoa Block and Block 27. Both concessions are operated under participation contracts, which permit the subsidiaries to explore for and exploit oil at their sole risk and expense during the contract term. The participation contract for the Tarapoa Block has a primary term through to August 1, 2015 and the participation contract for Block 27 has a minimum producing period of 20 years from commencement of commercial production which began in 2000. In the fourth quarter of 2000, AEC farmed-in to a 40 percent non-operated interest in Block 15 in the Oriente Basin in Ecuador. In addition, AEC has interests in five contracts in the Oriente Basin in Colombia. During the fourth quarter of 2001, AEC commenced efforts to dispose of its Colombian interests.

MIDSTREAM

The Corporation's midstream activities are comprised of two business units: Pipelines and Processing and Gas Storage. The Pipelines and Processing business unit includes interests in pipelines within Alberta, the U.S. Rocky Mountain states, the U.S. mid-western states and South America, and an NGLs extraction facility at Empress, Alberta. Through the Gas Storage business unit, AEC owns and operates natural gas storage facilities in Alberta, California and Oklahoma, leases natural gas storage capacity from other storage operators in the U.S. Gulf Coast and mid-continent regions, markets storage services to third parties, and buys and sells natural gas to earn additional margins while optimizing the use of storage capacity.

Pipelines and Processing

AEC is an intra-provincial oil transporter in Alberta and delivers oil into the U.S. Rocky Mountain and mid-western states. The Corporation has continued to advance pipeline initiatives which are consistent with AEC's exploration and development strategy in North America and internationally.

In 1995, AEC and a major pipeline company, each with a 50 percent interest, initiated the Express Pipeline System. The Express Pipeline System consists of two crude oil pipelines, the Express Pipeline, which transports crude oil from Hardisty, Alberta to Casper, Wyoming, and the Platte Pipeline, which originates at Casper, Wyoming and terminates at Wood River, Illinois. In November 2000, AEC acquired the 50 percent interest in each of the Express Pipeline System, the Marquest Limited Partnership and the Marquest General Partnership (the “Marquest Entities”) that AEC did not already own. AEC issued approximately 1.7 million common shares representing an approximate value of \$97 million, acquired net cash of \$54.8 million and assumed approximately \$295 million in non-recourse project financing debt related to the acquired interest. AEC continues to own 100 percent of the Express Pipeline System and the Marquest Entities. The Marquest Entities have entered into long-term ship-or-pay contracts related to the Express Pipeline pursuant to which the Marquest Entities committed to ship 60,000 barrels per day of crude oil.

In December 1996, AEC established AEC Pipelines, L.P., an Alberta limited partnership (the “Pipelines Partnership”), with AEC as the initial limited partner and a wholly owned subsidiary of AEC as the general partner. In April 1997, the Pipelines Partnership completed an initial public offering of Class A limited partnership units representing a 30 percent interest in the Pipelines Partnership for net proceeds of \$295 million. Upon closing of the issue, AEC transferred its ownership interests in the Alberta Oil Sands Pipeline (“AOSPL”) System and the Cold Lake Pipeline System to the Pipelines Partnership for cash and Class B limited partnership units, representing a 70 percent interest in the Pipelines Partnership. In September 2000, AEC acquired all of the outstanding Class A limited partnership units of the Pipelines Partnership through an exchange of 0.1552 of a common share of AEC for each Class A limited partnership unit. AEC issued approximately 5.0 million common shares representing an approximate value of \$296 million. The Pipelines Partnership was dissolved in December 2001 and AEC Pipelines (Cold Lake) Ltd. (“AEC Cold Lake”), an indirect wholly owned subsidiary of AEC, acquired the assets of the Pipelines Partnership.

As a result of the McMurry acquisition in June 2000, and a consolidation of some of AEC’s U.S. subsidiaries in December 2000, AEC Oil & Gas (USA) Inc. indirectly owned all of the partnership interests in Jonah Gas Gathering Company, a Wyoming general partnership which owned the Jonah Gas Gathering System (“JGGS”). In September 2001, AEC Oil & Gas (USA) Inc.’s indirect interest in Jonah Gas Gathering Company was sold for proceeds of approximately \$568 million.

In October 2000, the Pipelines Partnership and two industry partners entered into an agreement to expand the Cold Lake Pipeline System and formed the Cold Lake Pipeline Limited Partnership (the “Cold Lake Partnership”) in which the Pipelines Partnership had an interest of 70 percent. At the commencement of the commercial pipeline operations of the Cold Lake Partnership in December 2001, AEC Cold Lake contributed its interest in the original Cold Lake Pipeline System to the Cold Lake Partnership.

In December 2001, AEC Cold Lake sold its 100 percent interest in the AOSPL System for approximately \$218 million.

In February 2001, AEC purchased a 36 percent equity interest in the Trasadino Pipeline System, which transports crude oil from Argentina to refineries in Chile, for approximately US\$64 million.

In July 2001, after receiving regulatory approval in June 2001, a consortium in which AEC holds a 31.4 percent equity interest commenced construction of the Oleoducto de Crudos Pesados (“OCP”) pipeline which will transport crude oil from the oil producing region in Ecuador to the Pacific Coast. Construction is anticipated to be completed in approximately two years.

Gas Storage

AEC is the largest independent (non-utility) gas storage operator in North America, with facilities in Alberta, California and Oklahoma. In addition, AEC leases gas storage capacity from other storage operators located in the U.S. Gulf Coast and mid-continent regions. AEC uses its storage capacity to provide storage services to industry participants and also uses a portion of the capacity to store its own produced natural gas and natural gas purchased from others.

In 1999, AEC developed additional storage capacity near its Hythe natural gas processing plant. Also in 1999, an indirect wholly owned subsidiary of AEC, Wild Goose Storage Inc., commenced commercial operation

of California's first independent natural gas storage facility. In February 2001, an indirect wholly owned subsidiary of AEC, Salt Plains Storage Inc., acquired substantially all of the assets of an operating natural gas storage facility in northern Oklahoma for approximately US\$42 million.

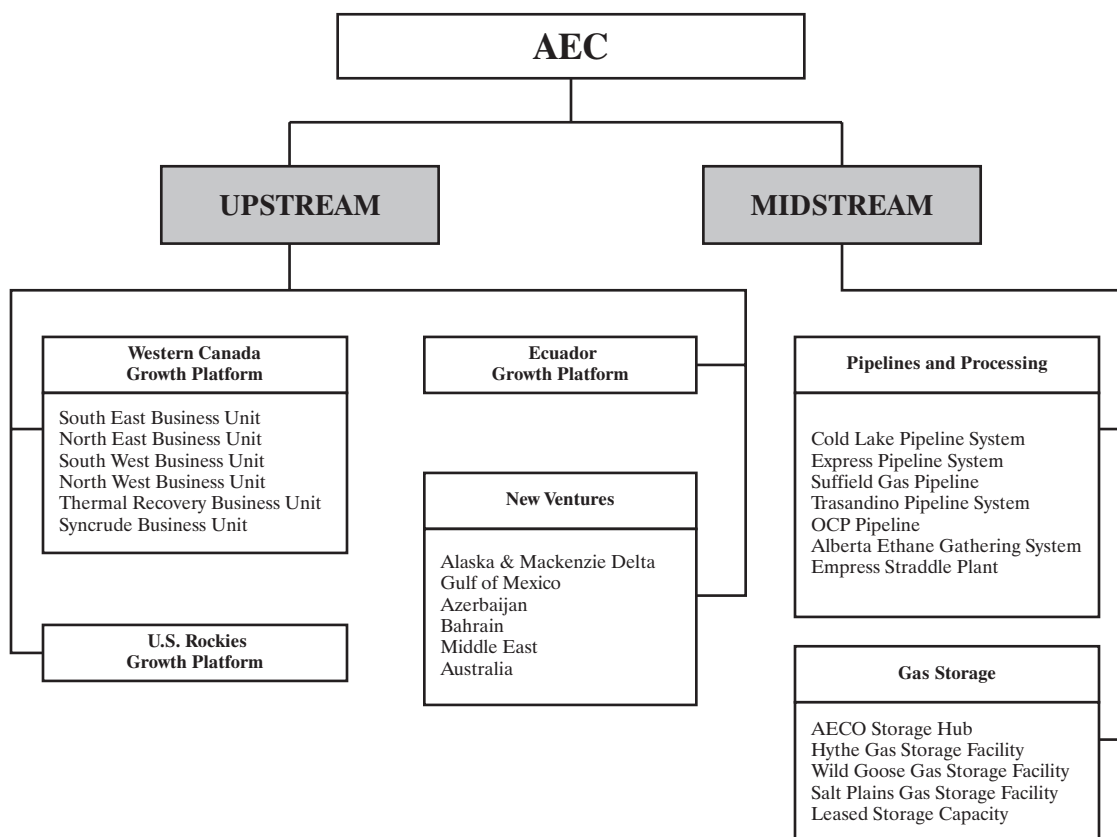
RECENT DEVELOPMENTS

On January 27, 2002, AEC announced that it had entered into an agreement to merge with PanCanadian Energy Corporation ("PanCanadian"). Under the terms of the agreement, the proposed merger of equals is to be accomplished through an arrangement under the *Business Corporations Act* (Alberta) and will feature a common share exchange through which AEC common shareholders will receive 1.472 common shares of PanCanadian for each common share of AEC. In connection with the proposed merger, the PanCanadian corporate name is proposed to be changed to EnCana Corporation. The proposed merger is subject to approvals by the shareholders of both companies (including the optionholders of AEC), the Court of Queen's Bench of Alberta, and appropriate regulatory and other authorities, and certain other conditions. The transaction is anticipated to close in early April 2002.

ITEM 4 NARRATIVE DESCRIPTION OF THE BUSINESS

AEC's business is conducted in two main industry groups: the Upstream group is comprised of crude oil and natural gas exploration, production and marketing, and the Midstream group consists of pipeline transportation, natural gas processing and natural gas storage.

The chart below outlines the areas of operation of AEC as at February 20, 2002:



UPSTREAM

AEC pursues exploration and development of natural gas and oil in the plains area of the Western Canada Sedimentary Basin; medium to deep natural gas and NGLs in northeast British Columbia and the western Alberta foothills; thermal recovery of oil at Foster Creek in northeast Alberta; oil sands development at

Syncrude in northeast Alberta; and deep, tight, natural gas formations in the U.S. Rockies. AEC has also begun evaluating the potential for coalbed methane development in eastern British Columbia. Internationally, activities are primarily focused on oil exploration, development and production in the Oriente Basin in Ecuador. AEC sells natural gas to markets in Canada and the U.S., and its customers include supply aggregators, local distribution companies, marketing companies and others. Oil production, including crude oil from Syncrude known as Syncrude Sweet Blend (“SSB”), is marketed directly to refiners in Canada and the U.S. and to marketing companies in Canada and the U.S. NGLs are sold to marketing companies in Canada as well as a refiner and a marketing company in the U.S. Oil production in Ecuador is marketed through a third party and sold FOB Port. New Ventures groups are exploring for potential new growth platforms in Alaska, the Mackenzie Delta, the Gulf of Mexico, Azerbaijan and Bahrain. In addition, these groups are seeking other opportunities in the Middle East.

Western Canada Growth Platform

Within the Western Canada Growth Platform there are six entrepreneurial business units. The North West and South West business units target medium to deep natural gas in northeast British Columbia and the western Alberta foothills. The North East and South East business units focus on natural gas and oil exploration and development in the plains areas of the Western Canada Sedimentary Basin. The Thermal Recovery business unit operates a thermal recovery project at Foster Creek using steam-assisted gravity drainage (“SAGD”) technology. The Syncrude business unit manages the Corporation’s 13.75 percent interest in the Syncrude Joint Venture.

AEC’s 2002 capital investment in core programs for natural gas projects in Western Canada is forecast to be approximately \$620 million with approximately \$140 million directed to exploration and approximately \$480 million to development. The drilling of approximately 770 gross natural gas wells is anticipated. Capital investment in core programs for 2002 conventional liquids projects in Western Canada is forecast to be approximately \$165 million and includes the drilling of approximately 150 gross oil wells. In 2002, AEC’s Thermal Recovery business unit expects to invest approximately \$40 million. In addition, in 2002 AEC expects to invest approximately \$240 million for its share of Syncrude’s projected capital expenditures, which includes approximately \$40 million to sustain the operations and approximately \$200 million for Stage 3 expansion.

South East Business Unit

The major producing area of the South East business unit is the Suffield Block in southeastern Alberta.

Suffield Block

At December 31, 2001, AEC held an average 99 percent interest in the petroleum and natural gas rights to 649,000 gross acres (646,000 net acres, of which 2,400 net acres are undeveloped) in the productive Upper Cretaceous shallow gas horizons in the Suffield Block. In addition, AEC held a 99 percent interest in the deeper petroleum and natural gas rights to 341,000 gross acres (337,000 net acres, of which 236,000 net acres are undeveloped) underlying the Corporation’s existing shallow gas producing zones in the Suffield Block. Approximately 200,000 of these net acres (100 percent interest) were acquired in the April 2000 special Crown land sale for deeper petroleum and natural gas rights on the Suffield Military Range.

Suffield Block operations are carried out by AEC in cooperation with the Canadian military according to guidelines established under agreements with the Government of Canada. At December 31, 2001, there were a total of 4,705 gross producing shallow gas wells (4,705 net wells) which are connected by a network of gas gathering pipelines to eight gas compressor stations located at the boundaries of the Suffield Block. There were also 50 gross gas wells (50 net wells) producing from deeper formations. AEC’s production in 2001, including conserved solution gas, averaged 216 million cubic feet per day of dry, sweet gas (185 million cubic feet per day in 2000).

AEC operates and holds interests ranging from 70 to 100 percent in properties along the west side of the Suffield Block, which produce conventional heavy oil. At December 31, 2001, there were 623 gross producing oil wells (519 net wells), of which 392 gross wells (335 net wells) were horizontal wells. In 2001, AEC’s Suffield area crude oil production averaged 23,250 barrels per day (17,500 barrels per day in 2000).

North East Business Unit

The major producing areas of the North East business unit are the Primrose Block and Pelican Lake, Alberta.

Primrose Block

At December 31, 2001, AEC held an average 97 percent interest in the petroleum and natural gas rights to 877,000 total gross acres (851,000 net acres, of which 621,000 net acres are undeveloped) in the Primrose Block. At December 31, 2001, AEC had interests in 352 gross gas wells (341 net wells) that were producing. In 2001, AEC's production from Primrose averaged 230 million cubic feet per day of natural gas (233 million cubic feet per day in 2000), all processed through 100 percent controlled and operated compression facilities.

Pelican Lake

At December 31, 2001, AEC held a 100 percent interest in 206,000 total gross acres of crude bitumen rights at Pelican Lake in north-central Alberta (206,000 net acres, of which 152,000 net acres are undeveloped). AEC also holds a 38 percent interest in a 70-mile, 20-inch diameter crude oil pipeline, which connects the Pelican Lake area to a major pipeline transporting crude oil from northern Alberta to markets. AEC's production in 2001 from this area averaged 14,469 barrels per day of crude oil from interests in 370 gross oil wells (370 net wells) that were producing at December 31, 2001 (12,980 barrels per day of crude oil in 2000).

South West Business Unit

The major producing areas of the South West business unit are the Grande Prairie and Deep Basin areas of Alberta and the Ladyfern area of British Columbia. In addition, the business unit has commenced two coalbed methane pilot projects in Elk Valley and a coalbed methane evaluation program at Grizzly Valley, both areas of eastern British Columbia.

Grande Prairie

In the Grande Prairie area, at December 31, 2001, AEC held an average 79 percent interest in the petroleum and natural gas rights to 604,000 gross acres of land (480,000 net acres, of which 310,000 net acres are undeveloped), and had interests in 444 gross gas wells (266 net wells) and 189 gross oil wells (89 net wells) that were producing at December 31, 2001. AEC's production in 2001 averaged 148 million cubic feet per day of natural gas and 5,706 barrels per day of crude oil and NGLs (159 million cubic feet per day of natural gas and 5,739 barrels per day of crude oil and NGLs in 2000).

AEC operates and has a 62 percent interest in a 210 million cubic feet per day sour gas and liquids processing plant at Sexsmith, Alberta and an 85 percent interest in a 50 million cubic feet per day sweet gas plant adjacent to it. AEC operates and controls 100 percent of the Hythe gas plant, which has a capacity of 175 million cubic feet per day. The Hythe gas plant and the Sexsmith sour gas plant are interconnected by pipeline to provide greater operating efficiencies. AEC also owns and operates a 150-mile gas gathering system in the area.

Deep Basin

In the Deep Basin area, at December 31, 2001, AEC held an average 69 percent interest in the petroleum and natural gas rights to 1,199,000 gross acres of land (832,000 net acres, of which 733,000 net acres are undeveloped), and had interests in 234 gross gas wells (63 net wells) and 145 gross oil wells (36 net wells) that were producing at December 31, 2001. AEC's production in 2001 averaged 52 million cubic feet per day of natural gas and 1,574 barrels per day of crude oil and NGLs (66 million cubic feet per day of natural gas and 1,782 barrels per day of crude oil and NGLs in 2000).

Ladyfern

In the Ladyfern area of northeast British Columbia, at December 31, 2001, AEC held an average 78 percent interest in the petroleum and natural gas rights to 50,000 gross acres (39,000 net acres, of which 33,000 net acres are undeveloped). AEC had interests in a total of four gross gas wells (four net wells) that were producing at

December 31, 2001. AEC's production in the Ladyfern area commenced May 7, 2001 and average annualized production in 2001 was 93 million cubic feet per day of natural gas.

Elk Valley and Grizzly Valley

At December 31, 2001, AEC held a 100 percent interest in petroleum and natural gas rights to 110,000 and 55,000 acres of land in the Elk Valley and Grizzly Valley areas of British Columbia, respectively. Work commenced on two coalbed methane pilot projects at Elk Valley and a coalbed methane evaluation program at Grizzly Valley. In 2001, eight exploration wells were drilled in the Elk Valley area of southeast British Columbia, and three exploration wells were drilled in the Grizzly Valley area of northeast British Columbia.

North West Business Unit

The major producing areas of the North West business unit are the Maxhamish and Greater Sierra areas of British Columbia, and the Boyer and Fontas areas of Alberta.

Maxhamish

In the Maxhamish area of northeast British Columbia, at December 31, 2001, AEC held an average 68 percent interest in the petroleum and natural gas rights to 493,000 gross acres (335,000 net acres, of which 264,000 net acres are undeveloped). Production facilities were capable of processing approximately 100 million cubic feet per day. AEC had interests in a total of 69 gross producing gas wells (69 net wells) at December 31, 2001. AEC's production in 2001 averaged 72 million cubic feet per day of natural gas and 244 barrels per day of NGLs (64 million cubic feet per day of natural gas and 74 barrels per day of NGLs in 2000).

Greater Sierra

In the Greater Sierra area of northeast British Columbia, at December 31, 2001, AEC held an average 81 percent interest in the petroleum and natural gas rights to 2,571,000 gross acres (2,099,000 net acres, of which 1,849,000 net acres are undeveloped). AEC held an average 84 percent interest in the eight production facilities in the area that were capable of processing approximately 230 million cubic feet per day as at December 31, 2001. AEC had interests in a total of 270 gross producing gas wells (214 net wells) at December 31, 2001. AEC's production in 2001 averaged 106 million cubic feet per day of natural gas and 372 barrels per day of NGLs (44 million cubic feet per day of natural gas and 226 barrels per day of NGLs in 2000).

Boyer

In the Boyer area of northwest Alberta, at December 31, 2001, AEC held an average 91 percent interest in the petroleum and natural gas rights to 1,224,000 gross acres (1,121,000 net acres, of which 671,000 net acres are undeveloped). AEC held an average 88 percent interest in six production facilities in the area that were capable of processing approximately 120 million cubic feet per day as at December 31, 2001. AEC had interests in a total of 643 gross producing gas wells (568 net wells) at December 31, 2001. AEC's production in 2001 averaged 24 million cubic feet per day of natural gas (19 million cubic feet per day of natural gas in 2000).

Fontas

In the Fontas area of northwest Alberta, at December 31, 2001, AEC held an average 83 percent interest in the petroleum and natural gas rights to 77,000 gross acres (64,000 net acres, of which, 53,000 net acres are undeveloped). Production facilities were capable of processing approximately 45 million cubic feet per day as at December 31, 2001. AEC had interests in a total of 26 producing gas wells (21 net wells) at December 31, 2001. AEC's production in 2001 averaged 21 million cubic feet per day of natural gas (20 million cubic feet per day of natural gas in 2000).

Thermal Recovery Business Unit

The major producing area of the Thermal Recovery business unit is Foster Creek in northeast Alberta.

Foster Creek

AEC holds surface access rights for petroleum, natural gas and oil sands exploration, development and transportation from the Government of Canada. AEC has acquired, and has certain rights to acquire, oil sands leases wherever deposits of heavy crude oil are identified within the areas for which petroleum and natural gas lease rights are held. AEC is currently operating a heavy oil project in the Foster Creek area of the Primrose Block using SAGD technology, which combines steam injection with horizontal drilling for the recovery of heavy oil. In 1998, AEC drilled 20 vertical wells to delineate the reserves for a possible commercial project. Based upon the pilot results, AEC decided to proceed with the development of a commercial project in 1999. AEC received regulatory approval for the Foster Creek SAGD heavy oil project from the Alberta Energy and Utilities Board in June 2000. In 2001, AEC started injecting steam at its Foster Creek SAGD heavy oil project. Initial production from Foster Creek commenced in the fourth quarter of 2001 and is expected to reach production of 20,000 barrels per day in the second quarter of 2002.

Syncrude Business Unit

AEC has a 13.75 percent working interest in the Syncrude Joint Venture, which owns and engages Syncrude Canada Ltd. to operate the world's largest facility for the production of crude oil from oil sands. Oil sands are surface-mined. Bitumen is extracted from the sand and upgraded through a refining process to a light (32° API and low pour point), sweet (0.1 percent sulphur) crude oil known as SSB. AEC's share of Syncrude production averaged 30,687 barrels per day in 2001 (27,897 barrels per day in 2000).

AEC also receives a 6 percent gross overriding royalty from a 5 percent joint venture interest which is owned by a limited partnership in which AEC has a 75 percent indirect ownership (which is included in the above 13.75 percent working interest in the Syncrude Joint Venture).

In February 1997, the Syncrude participants and the Province of Alberta amended the royalty agreement to change the profits sharing formula and to cancel the Province of Alberta's option to convert the net profits interest to a gross production royalty. The amended agreement provided for a transition period from 1997 to the earlier of January 1, 2004 and the month after the Syncrude participants' aggregate capital expenditures from 1996 have reached \$2.8 billion. The transition period terminated in December 2001 upon reaching the required capital expenditure threshold. During the transition period, the Province of Alberta received the greater of its net profits interest share of the deemed net profits and 1 percent of the gross revenues attributable to production from (i) the original two leases in excess of 74 million barrels per year, and (ii) leases acquired subsequent to the original leases. With the amended agreement, the amount of the net profits interest was changed from 50 percent of the Syncrude participants' deemed net profits to a volume-weighted percentage based on production from all of the leases. For the original two leases, the net profits interest was 50 percent of deemed net profits attributable to volumes up to 74 million barrels, and 25 percent of the deemed net profits from volumes in excess of 74 million barrels. For production from leases acquired subsequent to the original leases, the net profits interest was 25 percent of the deemed net profits from all volumes. Capital expenditures after January 1, 1997 generated a 43 percent royalty credit during the transition period. For 2001, payments to the Province of Alberta were approximately eight percent of gross revenues after deduction of the pipeline tariff.

In January 2002, the Syncrude participants commenced paying royalties according to Alberta's generic oil sands royalty legislation. The generic royalty legislation stipulates that the Province of Alberta will receive the greater of 1 percent of the gross revenues and 25 percent of the deemed net profits. The deemed net profits for any year is defined as the excess of gross revenues over allowed operating costs and capital expenditures in that year.

In 1996, the Syncrude participants announced that they planned to invest approximately \$3 billion to add new bitumen production trains and to remove production constraints affecting the upgrader complex. In November 1997, the Syncrude participants further announced plans for a proposed \$3 billion expansion of its crude oil upgrader. The upgrader expansion project will be designed and constructed over the ensuing 10 years to increase crude oil production to the currently approved level of 173 million barrels per year. This project will also result in an improvement to SSB quality, which will broaden its marketability, and further improve Syncrude's environmental performance. Based on current design and expenditure estimates, AEC's share of the

cost of these expansion expenditures is expected to be approximately \$900 million from 2002 to their completion in 2010.

U.S. Rockies Growth Platform

The U.S. Rockies Growth Platform is focused on exploiting deep, tight, natural gas formations primarily in the Jonah sweet natural gas field located in the Green River Basin of southwest Wyoming and the Mamm Creek natural gas field located in the Piceance Basin of northwest Colorado.

AEC's 2002 capital investment in core programs in the U.S. Rockies Growth Platform is forecast to be approximately \$330 million.

Jonah

At December 31, 2001, AEC held an average 35 percent interest in the petroleum and natural gas rights to 88,000 total gross acres of land (31,000 net acres, of which 18,000 net acres are undeveloped) and had interests in 205 gross gas wells (108 net wells) that were producing at December 31, 2001. AEC's production in 2001 averaged 181 million cubic feet per day of natural gas and 1,947 barrels per day of NGLs (82 million cubic feet per day of natural gas and 723 barrels per day of NGLs from June 1, 2000, the date of acquisition of McMurry, averaged over the full year 2000).

Mamm Creek

At December 31, 2001, AEC held an average 96 percent interest in the petroleum and natural gas rights to 95,000 total gross acres of land (91,000 net acres, of which 56,000 net acres are undeveloped) and had interests in 249 gross gas wells (220 net wells) that were producing at December 31, 2001. AEC's production from February 2, 2001, the date of acquisition of Ballard, when averaged over the full year 2001 was 36 million cubic feet per day of natural gas and 345 barrels per day of NGLs.

Ecuador Growth Platform

Through the acquisition of Pacalta in May 1999, AEC holds a 100 percent interest in the Tarapoa Block and Block 27 in the Oriente Basin of Ecuador. In the fourth quarter of 2000, AEC farmed-in to a 40 percent non-operated interest in Block 15 in the Oriente Basin in Ecuador. At December 31, 2001, a total of 140 gross oil wells (117 net wells) were producing and 36 gross oil wells (33 net wells) were shut-in. AEC's crude oil production in 2001 was 51,862 barrels per day (43,358 barrels per day in 2000). AEC's expected available 2002 pipeline capacity is approximately 52,000 barrels of oil per day for all producing properties.

AEC's 2002 capital investment in core programs in the Ecuador Growth Platform is forecast to be approximately \$420 million.

New Ventures

New Ventures groups are exploring for potential new growth platforms in Alaska, the Mackenzie Delta, the Gulf of Mexico, Azerbaijan and Bahrain. In addition, these groups are seeking other opportunities in the Middle East. AEC has allocated approximately \$205 million to new ventures exploration in 2002.

Alaska and Mackenzie Delta

In 2001, AEC expanded its land holdings in the Northern Frontiers. In Alaska, as at December 31, 2001, AEC had a 33.33 percent interest in approximately 3,341,000 gross acres (1,113,000 net acres) and a 50 percent interest in approximately 177,000 gross acres (88,000 net acres) in the Alaskan foothills; a 36 percent interest in approximately 271,000 gross acres (99,000 net acres) along the Alaskan North Slope; through future drilling, a 33.33 percent interest in the McCovey shallow water prospect offshore from the Prudhoe Bay oilfield; an increase from a 20 percent interest to a 30 percent interest in the Grizzly Gomo prospect south of Kuparuk; and, a new 12 percent interest in the Heavenly prospect adjacent to, and immediately east of Grizzly Gomo. The McCovey, Grizzly Gomo and Heavenly prospects are scheduled to be drilled in 2002. At December 31, 2001,

AEC's land position in the Mackenzie Delta remained at approximately 535,000 gross acres (200,000 net acres), which consisted of a 37.5 percent interest in two Exploration Licences.

Gulf of Mexico

AEC Gulf of Mexico Inc., an indirect wholly owned subsidiary of AEC, announced on October 18, 2001 that it had signed an agreement with a major U.S. based integrated energy company to explore more than 360,000 acres of deepwater prospects in the Gulf of Mexico. This agreement covers more than 60 offshore leases and represents the other party's primary U.S. Gulf of Mexico deepwater work program for the next two years. Under the agreement, AEC has a working interest of between 12.5 and 15 percent in drilling four deepwater exploration wells on 26 blocks. AEC also holds separate options to earn between 12.5 and 50 percent interests in seven other prospects located on 37 blocks. In 2001, AEC participated in one exploration well in the Gulf of Mexico, which did not yield commercial quantities of crude oil and was subsequently abandoned. AEC invested approximately US\$30 million in 2001 on Gulf of Mexico exploration activities and plans to invest approximately US\$64 million on further Gulf of Mexico exploration activities in 2002.

Azerbaijan

In the Azerbaijan sector of the Caspian Sea, AEC holds a 5 percent working interest in a consortium active in the Alov Block. The consortium completed a 3D seismic program in 1999 and began pre-drill operations in 2001. These operations have been suspended until all appropriate government assurances are received that work can be recommenced upon the resolution of a border dispute in the region. Drilling on an oil exploration prospect is now anticipated to occur in 2004.

Middle East

In December 2001, AEC agreed to farmin to a 40 percent non-operating interest in Block 5 in Bahrain. This agreement is subject to the approval of the Government of Bahrain and will require AEC to fund technical studies and the drilling of two exploration wells prior to the end of 2004. AEC's farmin cost is estimated to be US\$19 million. In addition, other opportunities are being pursued in the Middle East.

Australia

AEC's exploration activities in Australia have been focused offshore on the Northwest Shelf. During 2001, AEC relinquished its 35 percent interest in permit NT/54 and drilled three exploration wells which were plugged and abandoned. Two wells are planned for the first quarter of 2002 in order to fulfill existing commitments.

Drilling Activity

The following tables summarize AEC's 2001 and 2000 gross participation and net interest in wells drilled:

WELLS DRILLED	Gas		Oil		Cased		Dry & Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration – 2001										
Canada	204	174	7	5	–	–	18	10	229	189
United States	12	6	–	–	–	–	–	–	12	6
U.S. – Alaska	–	–	–	–	–	–	1	–	1	–
U.S. – Gulf of Mexico	–	–	–	–	–	–	1	–	1	–
Total North America	216	180	7	5	–	–	20	10	243	195
Argentina	–	–	–	–	–	–	–	–	–	–
Australia	–	–	–	–	–	–	3	1	3	1
Colombia	–	–	–	–	–	–	–	–	–	–
Congo	–	–	–	–	–	–	2	–	2	–
Ecuador	–	–	1	1	2	2	–	–	3	3
Total International	–	–	1	1	2	2	5	1	8	4
Total	216	180	8	6	2	2	25	11	251	199

	Gas		Oil		Cased		Dry & Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development – 2001										
Canada	880	844	175	166	–	–	4	4	1,059	1,014
United States	144	112	–	–	–	–	–	–	144	112
U.S. – Alaska	–	–	–	–	–	–	–	–	–	–
U.S. – Gulf of Mexico	–	–	–	–	–	–	–	–	–	–
Total North America	1,024	956	175	166	–	–	4	4	1,203	1,126
Argentina	–	–	–	–	–	–	–	–	–	–
Australia	–	–	–	–	–	–	–	–	–	–
Colombia	–	–	–	–	–	–	–	–	–	–
Congo	–	–	–	–	–	–	–	–	–	–
Ecuador	–	–	43	35	2	1	–	–	45	36
Total International	–	–	43	35	2	1	–	–	45	36
Total	1,024	956	218	201	2	1	4	4	1,248	1,162

WELLS DRILLED	Gas		Oil		Cased		Dry & Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration – 2000										
Canada	172	142	30	16	–	–	39	27	241	185
United States	–	–	–	–	–	–	–	–	–	–
U.S. – Alaska	–	–	–	–	–	–	–	–	–	–
U.S. – Gulf of Mexico	–	–	–	–	–	–	–	–	–	–
Total North America	172	142	30	16	–	–	39	27	241	185
Argentina	1	1	–	–	–	–	–	–	1	1
Australia	–	–	1	1	–	–	1	–	2	1
Colombia	–	–	–	–	–	–	–	–	–	–
Congo	–	–	–	–	–	–	–	–	–	–
Ecuador	–	–	5	5	–	–	2	1	7	6
Total International	1	1	6	6	–	–	3	1	10	8
Total	173	143	36	22	–	–	42	28	251	193

	Gas		Oil		Cased		Dry & Abandoned		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development – 2000										
Canada	741	715	324	299	–	–	8	7	1,073	1,021
United States	15	9	–	–	–	–	–	–	15	9
U.S. – Alaska	–	–	–	–	–	–	–	–	–	–
U.S. – Gulf of Mexico	–	–	–	–	–	–	–	–	–	–
Total North America	756	724	324	299	–	–	8	7	1,088	1,030
Argentina	–	–	–	–	–	–	–	–	–	–
Australia	–	–	–	–	–	–	–	–	–	–
Colombia	–	–	–	–	–	–	–	–	–	–
Congo	–	–	–	–	–	–	–	–	–	–
Ecuador	–	–	7	7	–	–	–	–	7	7
Total International	–	–	7	7	–	–	–	–	7	7
Total	756	724	331	306	–	–	8	7	1,095	1,037

Location of Wells

The following table summarizes AEC's interest in producing wells and wells capable of producing as at December 31, 2001:

LOCATION OF WELLS	As at December 31, 2001					
	Gas		Oil		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	8,101	7,378	1,477	1,065	9,578	8,443
British Columbia	396	325	—	—	396	325
Saskatchewan	68	68	—	—	68	68
Total Canada	8,565	7,771	1,477	1,065	10,042	8,836
Colorado	249	220	—	—	249	220
North Dakota	—	—	1	1	1	1
Utah	6	6	—	—	6	6
Wyoming	205	108	—	—	205	108
Total United States	460	334	1	1	461	335
Total North America	9,025	8,105	1,478	1,066	10,503	9,171
Ecuador	—	—	146	120	146	120
Total International	—	—	146	120	146	120
Total	<u>9,025</u>	<u>8,105</u>	<u>1,624</u>	<u>1,186</u>	<u>10,649</u>	<u>9,291</u>

Interest in Material Properties

The following table summarizes AEC's total and undeveloped land holdings:

LAND HOLDINGS	As at December 31							
	2001				2000			
	Total		Undeveloped		Total		Undeveloped	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(thousands of acres)							
Alberta	9,501	7,798	6,401	5,376	9,167	7,546	6,358	5,405
British Columbia	3,800	3,045	3,317	2,677	3,234	2,656	2,864	2,380
Saskatchewan	682	623	584	540	874	814	801	755
Manitoba	79	79	79	79	—	—	—	—
Northwest Territories	1,537	794	1,537	794	1,547	794	1,541	794
Total Western Canada	15,599	12,339	11,918	9,466	14,822	11,810	11,564	9,334
Beaufort	227	5	227	5	227	5	227	5
Total Canada	15,826	12,344	12,145	9,471	15,049	11,815	11,791	9,339
Alaska	3,791	1,303	3,791	1,303	3,544	1,191	3,544	1,191
Colorado	167	141	118	99	—	—	—	—
Gulf of Mexico	94	13	94	13	—	—	—	—
Louisiana	6	—	—	—	—	—	—	—
Montana	5	5	5	5	28	28	28	28
North Dakota	28	27	28	27	88	85	87	84
Texas	10	7	10	7	8	6	8	6
Utah	129	89	124	87	24	4	23	4
Wyoming	452	316	418	303	267	148	221	134
Total United States	4,682	1,901	4,588	1,844	3,959	1,462	3,911	1,447
Total North America	20,508	14,245	16,733	11,315	19,008	13,277	15,702	10,786
Argentina	—	—	—	—	220	220	215	215
Australia	2,950	997	2,950	997	5,214	1,789	5,214	1,789
Colombia	1,170	1,170	1,170	1,170	1,125	1,125	1,125	1,125
Ecuador	1,094	797	985	726	1,093	797	985	726
Congo	—	—	—	—	1,252	188	1,252	188
Other	346	17	346	17	354	23	354	23
Total International	5,560	2,981	5,451	2,910	9,258	4,142	9,145	4,066
Total	26,068	17,226	22,184	14,225	28,266	17,419	24,847	14,852

Reserves

McDaniel & Associates Consultants Ltd., Gilbert Laustsen Jung Associates Ltd. ("GLJ"), and Netherland, Sewell & Associates, Inc. independently evaluated AEC's natural gas, conventional oil and NGLs reserves held in North America. Ryder Scott Company conducts independent evaluations of AEC's international reserves. AEC's share of Syncrude reserves were independently evaluated by GLJ. In addition, the Reserve Committee of AEC's Board of Directors, which is comprised entirely of independent directors, is charged with the responsibility for reviewing the Corporation's publicly-disclosed reserve estimates and reviewing the qualifications and procedures of the Corporation's independent engineering consultants.

The following tables provide a reconciliation of AEC's estimated reserve volumes from December 31, 2000 to December 31, 2001:

Reserves by Country

Constant Price

NATURAL GAS	Gross ⁽¹⁾					Net ⁽²⁾				
	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total
(billions of cubic feet)										
Canada										
End of year 2000	2,339	755	3,094	1,461	4,555	1,875	575	2,450	893	3,343
Revisions and improved recovery	56	(123)	(67)	(143)	(210)	55	(77)	(22)	132	110
Extensions and discoveries	578	112	690	114	804	469	87	556	84	640
Purchase of reserves in place	100	37	137	38	175	81	29	110	29	139
Sale of reserves in place . .	(31)	(85)	(116)	(78)	(194)	(25)	(69)	(94)	(61)	(155)
Sales	(404)	-	(404)	-	(404)	(314)	-	(314)	-	(314)
End of year 2001	<u>2,638</u>	<u>696</u>	<u>3,334</u>	<u>1,392</u>	<u>4,726</u>	<u>2,141</u>	<u>545</u>	<u>2,686</u>	<u>1,077</u>	<u>3,763</u>
United States										
End of year 2000	383	407	790	451	1,241	303	319	622	354	976
Revisions and improved recovery	231	(119)	112	(31)	81	179	(94)	85	(29)	56
Extensions and discoveries	118	89	207	61	268	96	71	167	47	214
Purchase of reserves in place	77	79	156	176	332	66	68	134	152	286
Sale of reserves in place . .	-	-	-	-	-	-	-	-	-	-
Sales	(79)	-	(79)	-	(79)	(64)	-	(64)	-	(64)
End of year 2001	<u>730</u>	<u>456</u>	<u>1,186</u>	<u>657</u>	<u>1,843</u>	<u>580</u>	<u>364</u>	<u>944</u>	<u>524</u>	<u>1,468</u>
Argentina										
End of year 2000	23	25	48	30	78	21	21	42	26	68
Revisions and improved recovery	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-
Purchase of reserves in place	-	-	-	-	-	-	-	-	-	-
Sale of reserves in place . .	(22)	(25)	(47)	(30)	(77)	(20)	(21)	(41)	(26)	(67)
Sales	(1)	-	(1)	-	(1)	(1)	-	(1)	-	(1)
End of year 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Australia										
End of year 2000	-	-	-	36	36	-	-	-	36	36
Revisions and improved recovery	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-
Purchase of reserves in place	-	-	-	-	-	-	-	-	-	-
Sale of reserves in place . .	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
End of year 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>36</u>	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36</u>	<u>36</u>
Total										
End of year 2000	2,745	1,187	3,932	1,978	5,910	2,199	915	3,114	1,309	4,423
Revisions and improved recovery	287	(242)	45	(174)	(129)	234	(171)	63	103	166
Extensions and discoveries	696	201	897	175	1,072	565	158	723	131	854
Purchase of reserves in place	177	116	293	214	507	147	97	244	181	425
Sale of reserves in place . .	(53)	(110)	(163)	(108)	(271)	(45)	(90)	(135)	(87)	(222)
Sales	(484)	-	(484)	-	(484)	(379)	-	(379)	-	(379)
End of year 2001	<u>3,368</u>	<u>1,152</u>	<u>4,520</u>	<u>2,085</u>	<u>6,605</u>	<u>2,721</u>	<u>909</u>	<u>3,630</u>	<u>1,637</u>	<u>5,267</u>

See footnotes on page G-22.

Reserves by Country

Constant Price

CRUDE OIL	Gross ⁽¹⁾					Net ⁽²⁾				
	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total
(millions of barrels)										
Canada										
End of year 2000	80.8	128.3	209.1	128.4	337.5	69.7	106.8	176.5	105.7	282.2
Revisions and improved recovery	50.2	(56.2)	(6.0)	(2.1)	(8.1)	50.4	(36.5)	13.9	7.2	21.1
Extensions and discoveries	11.9	38.3	50.2	16.2	66.4	11.0	36.3	47.3	14.1	61.4
Purchase of reserves in place	0.1	—	0.1	0.1	0.2	0.1	—	0.1	0.1	0.2
Sale of reserves in place . .	(0.5)	(0.1)	(0.6)	(0.1)	(0.7)	(0.5)	(0.1)	(0.6)	(0.1)	(0.7)
Sales	(16.7)	—	(16.7)	—	(16.7)	(14.4)	—	(14.4)	—	(14.4)
End of year 2001	<u>125.8</u>	<u>110.3</u>	<u>236.1</u>	<u>142.5</u>	<u>378.6</u>	<u>116.3</u>	<u>106.5</u>	<u>222.8</u>	<u>127.0</u>	<u>349.8</u>
Ecuador										
End of year 2000	56.5	176.9	233.4	53.3	286.7	40.4	131.3	171.7	39.3	211.0
Revisions and improved recovery	20.0	(38.8)	(18.8)	(14.7)	(33.5)	14.5	(31.6)	(17.1)	(6.4)	(23.5)
Extensions and discoveries	15.0	23.0	38.0	43.2	81.2	10.4	17.1	27.5	27.4	54.9
Purchase of reserves in place	—	—	—	—	—	—	—	—	—	—
Sale of reserves in place . .	—	—	—	—	—	—	—	—	—	—
Sales	(18.9)	—	(18.9)	—	(18.9)	(13.7)	—	(13.7)	—	(13.7)
End of year 2001	<u>72.6</u>	<u>161.1</u>	<u>233.7</u>	<u>81.8</u>	<u>315.5</u>	<u>51.6</u>	<u>116.8</u>	<u>168.4</u>	<u>60.3</u>	<u>228.7</u>
Argentina										
End of year 2000	0.1	0.1	0.2	—	0.2	0.1	—	0.1	—	0.1
Revisions and improved recovery	—	—	—	—	—	—	—	—	—	—
Extensions and discoveries	—	—	—	—	—	—	—	—	—	—
Purchase of reserves in place	—	—	—	—	—	—	—	—	—	—
Sale of reserves in place . .	(0.1)	(0.1)	(0.2)	—	(0.2)	(0.1)	—	(0.1)	—	(0.1)
Sales	—	—	—	—	—	—	—	—	—	—
End of year 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total										
End of year 2000	137.4	305.3	442.7	181.7	624.4	110.2	238.1	348.3	145.0	493.3
Revisions and improved recovery	70.2	(95.0)	(24.8)	(16.8)	(41.6)	64.9	(68.1)	(3.2)	0.8	(2.4)
Extensions and discoveries	26.9	61.3	88.2	59.4	147.6	21.4	53.4	74.8	41.5	116.3
Purchase of reserves in place	0.1	—	0.1	0.1	0.2	0.1	—	0.1	0.1	0.2
Sale of reserves in place . .	(0.6)	(0.2)	(0.8)	(0.1)	(0.9)	(0.6)	(0.1)	(0.7)	(0.1)	(0.8)
Sales	(35.6)	—	(35.6)	—	(35.6)	(28.1)	—	(28.1)	—	(28.1)
End of year 2001	<u>198.4</u>	<u>271.4</u>	<u>469.8</u>	<u>224.3</u>	<u>694.1</u>	<u>167.9</u>	<u>223.3</u>	<u>391.2</u>	<u>187.3</u>	<u>578.5</u>

See footnotes on page G-22.

Reserves by Country

Constant Price

NATURAL GAS LIQUIDS	Gross ⁽¹⁾					Net ⁽²⁾				
	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total
(millions of barrels)										
Canada										
End of year 2000	11.3	5.6	16.9	8.7	25.6	7.9	3.9	11.8	6.1	17.9
Revisions and improved recovery	(0.1)	(1.1)	(1.2)	(0.9)	(2.1)	–	(0.6)	(0.6)	(0.5)	(1.1)
Extensions and discoveries	2.0	(0.5)	1.5	0.6	2.1	1.4	(0.3)	1.1	0.4	1.5
Purchase of reserves in place	–	–	–	–	–	–	–	–	–	–
Sale of reserves in place . .	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Sales	(1.8)	–	(1.8)	–	(1.8)	(1.3)	–	(1.3)	–	(1.3)
End of year 2001	<u>11.3</u>	<u>4.0</u>	<u>15.3</u>	<u>8.4</u>	<u>23.7</u>	<u>8.0</u>	<u>2.9</u>	<u>10.9</u>	<u>6.0</u>	<u>16.9</u>
United States										
End of year 2000	3.1	3.3	6.4	3.6	10.0	2.4	2.6	5.0	2.8	7.8
Revisions and improved recovery	2.0	(1.2)	0.8	(0.3)	0.5	1.7	(1.0)	0.7	(0.2)	0.5
Extensions and discoveries	0.7	0.8	1.5	0.5	2.0	0.5	0.6	1.1	0.4	1.5
Purchase of reserves in place	0.2	0.2	0.4	0.5	0.9	0.2	0.2	0.4	0.4	0.8
Sale of reserves in place . .	–	–	–	–	–	–	–	–	–	–
Sales	(0.8)	–	(0.8)	–	(0.8)	(0.7)	–	(0.7)	–	(0.7)
End of year 2001	<u>5.2</u>	<u>3.1</u>	<u>8.3</u>	<u>4.3</u>	<u>12.6</u>	<u>4.1</u>	<u>2.4</u>	<u>6.5</u>	<u>3.4</u>	<u>9.9</u>
Australia										
End of year 2000	–	–	–	0.2	0.2	–	–	–	0.2	0.2
Revisions and improved recovery	–	–	–	–	–	–	–	–	–	–
Extensions and discoveries	–	–	–	–	–	–	–	–	–	–
Purchase of reserves in place	–	–	–	–	–	–	–	–	–	–
Sale of reserves in place . .	–	–	–	–	–	–	–	–	–	–
Sales	–	–	–	–	–	–	–	–	–	–
End of year 2001	<u>–</u>	<u>–</u>	<u>–</u>	<u>0.2</u>	<u>0.2</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>0.2</u>	<u>0.2</u>
Total										
End of year 2000	14.4	8.9	23.3	12.5	35.8	10.3	6.5	16.8	9.1	25.9
Revisions and improved recovery	1.9	(2.3)	(0.4)	(1.2)	(1.6)	1.7	(1.6)	0.1	(0.7)	(0.6)
Extensions and discoveries	2.7	0.3	3.0	1.1	4.1	1.9	0.3	2.2	0.8	3.0
Purchase of reserves in place	0.2	0.2	0.4	0.5	0.9	0.2	0.2	0.4	0.4	0.8
Sale of reserves in place . .	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Sales	(2.6)	–	(2.6)	–	(2.6)	(2.0)	–	(2.0)	–	(2.0)
End of year 2001	<u>16.5</u>	<u>7.1</u>	<u>23.6</u>	<u>12.9</u>	<u>36.5</u>	<u>12.1</u>	<u>5.3</u>	<u>17.4</u>	<u>9.6</u>	<u>27.0</u>

See footnotes on page G-22.

Reserves by Country

Constant Price

SYNTHETIC OIL	Gross ⁽¹⁾					Net ⁽²⁾				
	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total	Proved Producing ⁽³⁾	Proved Non- Producing ⁽⁴⁾	Total Proved ⁽⁵⁾	Probable ⁽⁶⁾⁽⁷⁾	Total
(millions of barrels)										
Canada (Syncrude)										
End of year 2000	339.5	112.9	452.4	273.1	725.5	290.9	93.4	384.3	224.3	608.6
Revisions and improved recovery	(17.5)	8.4	(9.1)	5.0	(4.1)	(0.6)	11.2	10.6	10.9	21.5
Extensions and discoveries	—	—	—	—	—	—	—	—	—	—
Purchase of reserves in place	—	—	—	—	—	—	—	—	—	—
Sale of reserves in place . .	—	—	—	—	—	—	—	—	—	—
Sales	(11.2)	—	(11.2)	—	(11.2)	(10.3)	—	(10.3)	—	(10.3)
End of year 2001	<u>310.8</u>	<u>121.3</u>	<u>432.1</u>	<u>278.1</u>	<u>710.2</u>	<u>280.0</u>	<u>104.6</u>	<u>384.6</u>	<u>235.2</u>	<u>619.8</u>

(1) “Gross” reserves are the remaining reserves of AEC, before deduction of estimated royalties.

(2) “Net” reserves are the remaining reserves of AEC, after deduction of estimated royalties.

(3) “Proved Producing” reserves are those proved reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of AEC rather than the lack of markets or some other reasons.

(4) “Proved Non-Producing” reserves are those proved reserves that are not currently producing either due to a lack of facilities and/or markets.

(5) “Total Proved” reserves are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

(6) “Probable” reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

(7) Canadian securities legislation and policies permit the disclosure, which is included or incorporated by reference herein under a multi-jurisdictional disclosure system adopted by the SEC, of probable reserves which may not be disclosed in registration statements otherwise filed with the SEC. Probable reserves are generally believed to be less likely to be recovered than proved reserves. The reserve estimates included or incorporated by reference in this AIF could be materially different from the quantities and values ultimately realized.

(8) “Synthetic Oil” is oil derived from the upgrading of crude bitumen and which is largely interchangeable with conventional crude oil as a refinery feedstock.

History – Daily Sales Volume and Per-Unit Results

The following tables summarize AEC's daily sales volume and per-unit results on a quarterly basis for 2001 and 2000:

SALES	Daily Sales Volume Year Ended December 31, 2001				
	Year	Q4	Q3	Q2	Q1
Produced Gas (million cubic feet/day)					
Canada	1,106	1,173	1,176	1,029	1,043
United States	217	259	219	212	178
Total	1,323	1,432	1,395	1,241	1,221
Oil and Natural Gas Liquids (barrels/day)					
North America					
Conventional light and medium oil	4,802	4,543	4,680	4,914	5,077
Conventional heavy oil	40,909	40,796	43,752	41,248	37,779
Natural gas liquids – Canada	4,998	5,529	4,762	4,887	4,805
Natural gas liquids – United States	2,291	2,855	2,536	2,201	1,556
Total North America conventional	53,000	53,723	55,730	53,250	49,217
Syncrude	30,687	32,347	28,938	29,162	32,319
Total North America	83,687	86,070	84,668	82,412	81,536
International	51,899	51,055	51,472	53,498	51,582
Total	135,586	137,125	136,140	135,910	133,118
SALES	Daily Sales Volume Year Ended December 31, 2000				
	Year	Q4	Q3	Q2	Q1
Produced Gas (million cubic feet/day)					
Canada	989	1,160	959	872	965
United States	82	141	140	45	–
Total	1,071	1,301	1,099	917	965
Oil and Natural Gas Liquids (barrels/day)					
North America					
Conventional light and medium oil	7,358	6,991	6,866	7,641	7,936
Conventional heavy oil	33,612	40,553	35,365	31,007	27,436
Natural gas liquids – Canada	4,771	5,150	4,690	4,432	4,808
Natural gas liquids – United States	723	1,369	1,154	359	–
Total North America conventional	46,464	54,063	48,075	43,439	40,180
Syncrude	27,897	26,877	29,189	31,023	24,497
Total North America	74,361	80,940	77,264	74,462	64,677
International	43,883	47,923	42,956	41,460	43,160
Total	118,244	128,863	120,220	115,922	107,837

PER-UNIT RESULTS	Year Ended December 31, 2001				
	Year	Q4	Q3	Q2	Q1
Produced Gas – Canada (\$/thousand cubic feet)					
Price, net of transportation and selling	5.25	2.98	3.26	6.02	9.37
Royalties	1.18	0.60	0.73	1.44	2.11
Operating costs	0.51	0.54	0.51	0.51	0.47
Netback	3.56	1.84	2.02	4.07	6.79
Produced Gas – United States (C\$/thousand cubic feet)					
Price, net of transportation and selling	5.51	3.48	3.93	6.72	9.04
Royalties	1.04	0.64	0.77	1.31	1.67
Production taxes	0.50	0.32	0.35	0.60	0.82
Operating costs	0.29	0.29	0.23	0.27	0.35
Netback including hedge	3.68	2.23	2.58	4.54	6.20
Hedge ⁽¹⁾	0.21	–	–	–	0.73
Netback excluding hedge	3.47	2.23	2.58	4.54	5.47
Conventional Light and Medium Oil (\$/barrel)					
Price, net of transportation and selling	36.21	33.28	36.21	37.40	37.69
Royalties	6.23	4.52	7.09	6.66	6.52
Operating costs	6.21	6.46	6.36	5.82	6.17
Netback including hedge	23.77	22.30	22.76	24.92	25.00
Hedge ⁽²⁾	2.51	10.04	–	–	–
Netback excluding hedge	21.26	12.26	22.76	24.92	25.00
Conventional Heavy Oil (\$/barrel)					
Price, net of transportation and selling	20.62	22.70	24.71	18.23	16.20
Royalties	2.40	2.01	3.14	2.06	2.33
Operating costs	4.78	4.52	4.90	4.93	4.76
Netback including hedge	13.44	16.17	16.67	11.24	9.11
Hedge ⁽²⁾	2.51	10.04	–	–	–
Netback excluding hedge	10.93	6.13	16.67	11.24	9.11
Total Conventional Oil (\$/barrel)					
Price, net of transportation and selling	22.23	23.60	25.83	20.26	18.75
Royalties	2.79	2.21	3.52	2.55	2.83
Operating costs	4.95	4.79	5.04	5.02	4.93
Netback including hedge	14.49	16.60	17.27	12.69	10.99
Hedge ⁽²⁾	2.51	10.04	–	–	–
Netback excluding hedge	11.98	6.56	17.27	12.69	10.99
Natural Gas Liquids (\$/barrel)					
Price, net of transportation and selling	34.92	24.41	34.97	40.30	42.96
Royalties	10.24	7.29	9.62	12.02	12.92
Netback	24.68	17.12	25.35	28.28	30.04

(1) Relates to contract volume of approximately 66 MMcf/d from November 1, 2000 to March 31, 2001.

(2) Relates to share of contract volume of 100,000 bbls/d for September to December 2001.

PER-UNIT RESULTS	Year Ended December 31, 2001				
	Year	Q4	Q3	Q2	Q1
Syncrude (\$/barrel)					
Price, net of transportation and selling	42.02	41.83	40.74	42.27	43.17
Gross overriding royalty and other revenue	0.64	0.13	0.19	2.15	0.18
Royalties	3.08	(0.60)	4.95	4.41	3.94
Cash operating costs	19.74	16.54	20.75	21.54	20.48
Netback including hedge	19.84	26.02	15.23	18.47	18.93
Hedge ⁽²⁾	2.67	10.05	—	—	—
Netback excluding hedge	17.17	15.97	15.23	18.47	18.93
Ecuador Oil (C\$/barrel)					
Price, net of transportation and selling	26.24	23.62	28.43	28.12	24.71
Royalties	8.10	5.85	9.76	8.72	8.05
Operating costs	4.98	4.70	5.04	5.63	4.53
Netback including hedge	13.16	13.07	13.63	13.77	12.13
Hedge	1.09	4.40	—	—	—
Netback excluding hedge	12.07	8.67	13.63	13.77	12.13

(2) Relates to share of contract volume of 100,000 bbls/d for September to December 2001.

PER-UNIT RESULTS	Year Ended December 31, 2000				
	Year	Q4	Q3	Q2	Q1
Produced Gas – Canada (\$/thousand cubic feet)					
Price, net of transportation and selling	5.32	8.24	5.21	4.09	3.00
Royalties	1.00	1.52	1.00	0.79	0.57
Operating costs	0.43	0.45	0.44	0.46	0.37
Netback	3.89	6.27	3.77	2.84	2.06
Produced Gas – United States (C\$/thousand cubic feet)					
Price, net of transportation and selling	6.83	7.72	6.10	6.24	—
Royalties	1.19	1.41	1.01	1.10	—
Production taxes	0.53	0.64	0.44	0.42	—
Operating costs	0.19	0.22	0.22	0.12	—
Netback including hedge	4.92	5.45	4.43	4.60	—
Hedge ⁽¹⁾	1.87	1.51	2.23	1.86	—
Netback excluding hedge	3.05	3.94	2.20	2.74	—
Conventional Light and Medium Oil (\$/barrel)					
Price, net of transportation and selling	41.48	44.36	43.85	39.29	38.95
Royalties	7.53	8.50	8.34	6.53	6.65
Operating costs	6.16	6.30	6.87	6.59	5.03
Netback including hedge	27.79	29.56	28.64	26.17	27.27
Hedge	—	—	—	—	—
Netback excluding hedge	27.79	29.56	28.64	26.17	27.27

(1) Relates to contract volume of approximately 121 MMcf/d from June 1, 2000 to October 31, 2000 and 66 MMcf/d from November 1, 2000 to March 31, 2001.

PER-UNIT RESULTS	Year Ended December 31, 2000				
	Year	Q4	Q3	Q2	Q1
Conventional Heavy Oil (\$/barrel)					
Price, net of transportation and selling	28.45	20.12	34.27	30.93	30.52
Royalties	3.78	3.34	4.17	3.99	3.77
Operating costs	4.35	4.03	4.72	4.37	4.33
Netback including hedge	20.32	12.75	25.38	22.57	22.42
Hedge	—	—	—	—	—
Netback excluding hedge	20.32	12.75	25.38	22.57	22.42
Total Conventional Oil (\$/barrel)					
Price, net of transportation and selling	30.79	23.68	35.82	32.58	32.41
Royalties	4.45	4.09	4.84	4.49	4.42
Operating costs	4.68	4.36	5.07	4.83	4.47
Netback including hedge	21.66	15.23	25.91	23.26	23.52
Hedge	—	—	—	—	—
Netback excluding hedge	21.66	15.23	25.91	23.26	23.52
Natural Gas Liquids (\$/barrel)					
Price, net of transportation and selling	39.03	45.89	39.84	33.56	34.11
Royalties	10.69	11.45	11.45	10.01	9.40
Netback including hedge	28.34	34.44	28.39	23.55	24.71
Hedge	—	—	—	—	—
Netback excluding hedge	28.34	34.44	28.39	23.55	24.71
Syncrude (\$/barrel)					
Price, net of transportation and selling	44.47	48.65	46.37	41.79	40.97
Gross overriding royalty and other revenue	0.23	0.26	0.22	0.22	0.22
Royalties	7.78	7.13	9.50	8.84	5.08
Cash operating costs	17.67	20.96	15.98	14.26	20.33
Netback including hedge	19.25	20.82	21.11	18.91	15.78
Hedge	—	—	—	—	—
Netback excluding hedge	19.25	20.82	21.11	18.91	15.78
Ecuador Oil (C\$/barrel)					
Price, net of transportation and selling	33.17	32.90	37.46	30.19 ⁽²⁾	37.97
Royalties	13.22	13.24	14.88	11.07	13.59
Operating costs	4.14	5.61	4.07	3.42	3.22
Netback including hedge	15.81	14.05	18.51	15.70	21.16
Hedge	—	—	—	—	—
Netback excluding hedge	15.81	14.05	18.51	15.70	21.16

(2) Price before retroactive tariff payment of \$22.8 million made in June (\$6.12/barrel).

History – Acquisitions and Capital Expenditures

AEC's rapid growth in recent years has been achieved through a balance of internal growth and acquisitions. AEC continues to pursue opportunities, which may include significant corporate or asset acquisitions, to develop and expand its business and may finance any such acquisitions with debt or equity or a combination of both. The following tables summarize acquisition and capital expenditures related to AEC's upstream and midstream activities on a quarterly basis for 2001 and 2000:

ACQUISITIONS AND CAPITAL EXPENDITURES	Year Ended December 31, 2001				
	Year	Q4	Q3	Q2	Q1
	(\$ million)				
Corporate Acquisitions	296.5	—	—	—	296.5
Property Acquisitions	315.5	64.7	166.0	36.1	48.7
Land	217.9	37.8	30.1	90.8	59.2
Exploration	426.8	126.7	92.9	75.9	131.3
Development	1,894.0	415.0	416.0	418.9	644.1
Other	38.5	15.1	5.4	10.7	7.3
Dispositions	(145.5)	(8.2)	(37.5)	(75.3)	(24.5)
Total Upstream	3,043.7	651.1	672.9	557.1	1,162.6
Corporate Acquisitions	130.9	—	—	—	130.9
Pipelines and Processing	240.9	89.5	87.1	40.6	23.7
Gas Storage	89.8	8.3	8.7	2.3	70.5
Equity Investment	26.5	—	—	—	26.5
Dispositions	(958.3)	(374.2)	(568.2)	(15.9)	—
Total Midstream	(470.2)	(276.4)	(472.4)	27.0	251.6
Total	2,573.5	374.7	200.5	584.1	1,414.2

ACQUISITIONS AND CAPITAL EXPENDITURES	Year Ended December 31, 2000				
	Year	Q4	Q3	Q2	Q1
	(\$ million)				
Corporate Acquisitions	931.1	—	—	931.1	—
Property Acquisitions	494.8	383.1	75.1	18.4	18.2
Land	175.4	37.9	30.8	80.5	26.2
Exploration	299.3	118.6	96.2	30.8	53.7
Development	1,135.4	359.3	269.8	249.2	257.1
Other	16.3	5.2	5.7	3.1	2.3
Dispositions	(89.2)	(65.4)	1.4	(19.2)	(6.0)
Total Upstream	2,963.1	838.7	479.0	1,293.9	351.5
Corporate Acquisitions	884.7	336.7	298.8	249.2	—
Pipelines and Processing	62.7	29.2	20.1	6.9	6.5
Gas Storage	12.8	2.0	3.7	3.6	3.5
Dispositions	(2.6)	(1.6)	—	(1.0)	—
Total Midstream	957.6	366.3	322.6	258.7	10.0
Total	3,920.7	1,205.0	801.6	1,552.6	361.5

Future Commitments

The following table summarizes AEC's future commitments to purchase, sell or transport natural gas as at December 31, 2001:

FUTURE COMMITMENTS	As at December 31, 2001			
	Total Commitment	Price	Volume	Term of Commitment
	(\$ million)	(\$/thousand cubic feet)	(billion cubic feet)	
Gas				
Purchases	908.9	4.00	227.5	2 Years
Sales	1,084.8	4.68	231.8	2 Years
Transportation	1,253.3	0.31	4,000.0	15 Years

AEC also has approximately \$1.7 billion in crude oil ship-or-pay transportation commitments over a 15-year period which relate to shipments on the OCP pipeline which is presently under construction.

Marketing

Natural Gas

In 2001, approximately 72 percent of AEC's produced natural gas sales were directly marketed by AEC to local distribution companies, gas marketing companies and others. The remaining 28 percent of produced natural gas sales were marketed to five aggregators who supply gas to markets in North America. Prices received by AEC are based on prevailing prices for competing fuels in such markets, including natural gas. On December 21, 2001, AEC announced that approximately 30 percent of 2002 forecast gas sales were hedged until September 2002, and that, for the period from January to September 2002, AEC had sold forward 600 million cubic feet per day of gas at fixed prices. In Canada, 370 million cubic feet per day was contracted for sale at an average AECO equivalent price of \$3.80 per thousand cubic feet. In the U.S. Rockies, 230 million cubic feet per day was sold forward at an average Opal equivalent price of US\$2.61 per thousand cubic feet. In 2002, AEC has continued to look for opportunities to sell forward at fixed prices. During the period from January 1, 2002 to the date hereof, AEC has entered into additional forward fixed price sales that average 133 million cubic feet per day for the period from January to September, 2002. An average of 105 million cubic feet per day was sold in Alberta at an average AECO equivalent price of \$3.53 per thousand cubic feet and an average of 28 million cubic feet per day was sold in the U.S. Rockies at an average Opal equivalent price of US\$2.29 per thousand cubic feet. AEC has an average of 733 million cubic feet per day of forward fixed price sales for the period from January to September, 2002 with 475 million cubic feet per day of these sales at an average AECO equivalent price of \$3.77 per thousand cubic feet and 258 million cubic feet per day of these sales at an average Opal equivalent price of US\$2.57 per thousand cubic feet.

In addition to sales of its production, AEC engages in natural gas purchase and sale activities which are supported by a number of short and long-term contracts. In 2001, AEC's sales of purchased gas amounted to 534 million cubic feet per day (605 million cubic feet per day in 2000).

The total capacity of gas export pipelines from Canada to the U.S. was expanded in December 2000 with initial deliveries from the Alliance Pipeline, which began transporting natural gas from northeast British Columbia and Alberta to Chicago, Illinois. AEC Oil & Gas Partnership, and an indirect wholly owned subsidiary of AEC, AEC Marketing (USA) Inc., have reserved space to ship 63 million cubic feet per day of natural gas on this pipeline.

To take advantage of AECO C prices converging with NYMEX prices, in 2001, AEC sold 63 percent of its natural gas at AECO C based pricing (65 percent in 2000). As of the date hereof, for 2002, AEC is selling approximately 35 percent of its natural gas at fixed prices, approximately 38 percent at AECO C based prices, and approximately 27 percent at NYMEX based prices.

Crude Oil, Natural Gas Liquids and Sulphur

AEC sells and delivers its western Canadian conventional crude oil in Canada and the U.S. (45,711 barrels per day in 2001 and 40,970 barrels per day in 2000). Typically, crude oil sales are made at a major pipeline terminal, such as Edmonton or Hardisty, Alberta, and AEC arranges the intermediate transportation on feeder pipeline systems.

AEC markets its share of Syncrude production (30,687 barrels per day in 2001 and 27,897 barrels per day in 2000) to three Canadian refiners, two U.S. based refiners and an AEC subsidiary marketing company all under 30-day evergreen contracts. The AEC subsidiary marketing company markets its share of AEC's Syncrude production to two U.S. based refiners under a one year term contract and a 30-day evergreen contract. Conventional light sweet crude is sold to a variety of customers primarily under spot and 30-day evergreen contracts. Heavy oil is sold primarily under 30-day evergreen contracts to five U.S. based refiners, an AEC subsidiary marketing company, and a Canadian refiner. The AEC subsidiary marketing company markets heavy oil to a variety of U.S. based refiners and marketing companies under one year term and 30-day evergreen contracts.

In Ecuador, all of AEC's crude oil volumes are marketed through a third party and sold FOB Port at the actual netback price. AEC has given notice to cancel the existing marketing contract effective March 31, 2002.

AEC established financial swaps on 100,000 barrels of oil per day at an average West Texas Intermediate ("WTI") price of US\$26.71 per barrel from September 2001 to December 2001. For 2002, AEC has established a series of costless collars on 50,000 barrels per day of oil sales that set an average WTI floor price of US\$22.00 per barrel and an average WTI ceiling price of US\$27.72 per barrel. AEC has also purchased put options, at a cost of US\$0.67 per barrel, establishing a WTI floor price of US\$20.00 per barrel on another 35,000 barrels per day of oil sales during 2002. These two risk mitigation measures cover up to 85,000 barrels per day of oil sales, which is approximately 54 percent of AEC's projected oil production in 2002.

A letter of intent was signed in October 2001 pursuant to which AEC would sell approximately 30,000 barrels per day of its Ecuadorian crude oil production, under a long-term agreement, to the Chilean national oil company. A related initiative contemplates AEC taking up to a 30 percent interest in the construction of a new coker facility in Concon, Chile. This coker investment is conditional upon certain matters that include establishing a long-term crude supply agreement and finalizing the financial and commercial agreements, all of which are anticipated to occur during the second quarter of 2002.

Canadian NGL production (4,998 barrels per day in 2001 and 4,771 barrels per day in 2000) is sold in Canada to two marketing companies under long-term supply agreements at market pricing. U.S. NGL production (2,291 barrels per day in 2001 and 723 barrels per day in 2000) is sold in the U.S. to a refiner and a marketing company under one year term contracts which are bid out annually.

AEC has an interest in a producer-owned company which markets sulphur outside North America. Sulphur is sold under the terms of a shareholder and supply agreement whereby AEC has the right to nominate annual volumes under a three year commitment which began in 2001. In 2001, 102,000 tonnes of sulphur were sold in offshore markets (164,000 tonnes in 2000). The balance of AEC production was sold for delivery in Alberta or stored at onsite inventory facilities for future recovery when prices improve.

MIDSTREAM

The Corporation's midstream activities are comprised of two business units: Pipelines and Processing and Gas Storage. The Pipelines and Processing business unit includes interests in pipelines within Alberta, the U.S. Rocky Mountain states, the U.S. mid-western states and South America, and an NGLs extraction facility at Empress, Alberta. Through the Gas Storage business unit, AEC owns and operates natural gas storage facilities in Alberta, California and Oklahoma, leases natural gas storage capacity from other storage operators in the U.S. Gulf Coast and mid-continent regions and markets hub services. AEC's 2002 capital investment in core programs in its midstream operations, before investments in the OCP pipeline and dispositions, is forecast to be approximately \$120 million.

Pipelines and Processing

AEC restructured its pipeline assets in 1997 through the formation of the Pipelines Partnership and the sale of Class A limited partnership units to the public, representing a 30 percent interest in the Pipelines Partnership, for net proceeds of \$295 million. In September 2000, AEC acquired all of the outstanding Class A limited partnership units of the Pipeline Partnership through an exchange of 0.1552 of a common share of AEC for each Class A limited partnership unit. AEC issued approximately 5.0 million common shares representing an approximate value of \$296 million. The Pipelines Partnership was dissolved in December 2001 and AEC Cold Lake, an indirect wholly owned subsidiary of AEC, acquired the assets of the Pipelines Partnership.

Cold Lake Pipeline System

In October 2000, the Pipelines Partnership and two industry partners entered into an agreement to expand the Cold Lake Pipeline System and formed the Cold Lake Partnership in which the Pipelines Partnership had an interest of 70 percent. At the commencement of the commercial pipeline operations of the Cold Lake Partnership in December 2001, AEC Cold Lake contributed its interest in the original Cold Lake Pipeline System to the Cold Lake Partnership. During 2001, the Cold Lake Partnership funded the construction of a new 24-inch diameter pipeline which transports heavy oil from the Cold Lake area to Hardisty, Alberta where it connects with the Express Pipeline System and other facilities. The new pipeline has a total length of approximately 235 kilometres and an initial capacity of approximately 200,000 barrels per day. Construction of the new pipeline was completed in December 2001. In addition, the Cold Lake Partnership funded the construction of a lateral pipeline connecting the Cold Lake Pipeline System to AEC's SAGD heavy oil project in the Foster Creek area of the Primrose Block. The Foster Creek lateral is a 52-kilometre, 24-inch diameter pipeline and has an initial capacity of approximately 41,000 barrels per day. AEC Pipelines Ltd., a wholly owned subsidiary of AEC, is the operator of the Cold Lake Pipeline System.

The Cold Lake Partnership has entered into long-term ship-or-pay contracts with several producers in the Cold Lake area, including AEC. The new contracts became effective upon the completion of the new pipeline to Hardisty and supercede previous agreements which were to expire in 2005. These new contracts provide for recovery of operating costs, incentive arrangements and return on invested capital and are largely unaffected by changes in throughput.

Shipments in 2001 averaged 220,000 barrels per day of blended bitumen (200,700 barrels per day in 2000), and 53,800 barrels per day of diluent (49,700 barrels per day in 2000).

Express Pipeline System

AEC owns and operates the Express Pipeline System and the Marquest Entities. In November 2000, AEC acquired the 50 percent interest in each of the Express Pipeline System and the Marquest Entities that AEC did not already own.

The Express Pipeline System delivers crude oil from western Canada into the Rocky Mountain and mid-west areas of the U.S. via the Express Pipeline and the Platte Pipeline. The Express Pipeline is a 785-mile, 24-inch diameter pipeline from Hardisty, Alberta to Casper, Wyoming and includes related metering and storage facilities and pump stations. The Platte Pipeline consists of a 932-mile, 20-inch diameter pipeline from Casper to refineries and connecting pipelines in the Wood River, Illinois area. Crude oil delivered by the Platte Pipeline includes a portion of the crude oil shipped via the Express Pipeline, as well as crude oil produced in the Rocky Mountain area of the U.S. In March 2001, the Platte Pipeline added a pipeline connection in Nebraska. In June 2001, the Express Pipeline completed a new pipeline connection capable of delivering up to 30,000 barrels per day to Montana refineries.

The Express Pipeline has a design capacity to handle an average throughput of 172,000 barrels per day, and can be expanded to 280,000 barrels per day when required by market conditions. Commitments have been obtained from producers, marketers and refiners (including a subsidiary of AEC which is obligated to pay rates equivalent to other shippers rates, with respect to 60,000 barrels per day of transportation capacity) to utilize approximately 85 percent of initial available capacity on a ship-or-pay basis for terms of five, 10, or 15 years from 1997, with the majority of the commitments being for 15 years. Transportation rates are regulated in Canada by

the National Energy Board and in the U.S. by the Federal Energy Regulatory Commission and were established by negotiation with shippers. While the tariffs on the Express Pipeline do not provide for a guaranteed rate of return on rate base, the ship-or-pay term commitments provide a base level of revenues on the Express Pipeline. The five year contracts, which account for 30,000 barrels per day, expire on March 31, 2002. Renewal discussions with the five year contract holders have commenced. The Express Pipeline also entered into a three year term contract for 10,000 barrels per day beginning June, 2001 for its connection to Montana refineries. Ultimate returns on the Express Pipeline are dependent on throughput levels. Shipments in 2001 averaged 157,400 barrels per day (139,800 barrels per day in 2000).

Shipments on the Platte Pipeline in 2001 averaged 102,200 barrels per day (95,600 barrels per day in 2000). The Platte Pipeline has a throughput capacity of 150,000 barrels per day.

The Express Pipeline System competes with other pipeline systems that ship crude oil from producing areas in Canada and the U.S. to refineries and others in markets in the U.S. Rocky Mountain and mid-western states.

Suffield Gas Pipeline

In November 1998, AEC commissioned the Suffield Gas Pipeline, a 71-mile natural gas pipeline from the southern end of the Suffield Block to a connection point in Saskatchewan on the main natural gas pipeline transporting gas to eastern Canada. The pipeline has a design capacity of 200 million cubic feet per day and operated at 157 million cubic feet per day in 2001, of which 16 million cubic feet per day was transported for third parties. A similar project that will gather gas from the northern portion of the Suffield Block, the North Suffield Gas Pipeline, received National Energy Board approval in 2000. Construction of the 60-mile natural gas pipeline with a capacity of approximately 190 million cubic feet per day was completed in December 2001, at which time service commenced.

Trasandino Pipeline System

In February 2001, AEC purchased a 36 percent equity interest, for approximately US\$64 million, in the Trasandino Pipeline System which carries crude oil from Argentina's Neuquen Basin to refineries in Chile. The pipeline is 263 miles in length and has a design capacity of 113,000 barrels per day. Shipments on the Trasandino Pipeline System in 2001 averaged 110,900 barrels per day. The recent economic crisis in Argentina could have adverse implications on dividend receipts generated by the Argentine segment of the Trasandino Pipeline System; however, these receipts are not considered to be material to AEC on a consolidated basis.

OCP Pipeline

AEC is a participant in a producer-led consortium, constituted to build, own and operate a new 500-kilometre, 450,000 barrel per day export pipeline from the oil producing area of Ecuador to the Pacific Coast. In February 2001, an agreement was signed with the Government of Ecuador covering the commercial terms for the construction of the OCP pipeline. In July 2001, after receiving regulatory approval in June 2001, construction commenced on the OCP pipeline. Construction will take approximately two years to complete. Pursuant to the terms of the agreement with the Government of Ecuador, the OCP pipeline will be transferred to the Government of Ecuador, without cost, after a 20-year operating period. AEC has an indirect 31.4 percent equity interest in the project and has entered into a 15-year ship-or-pay transportation agreement with respect to 108,000 barrels per day.

Alberta Ethane Gathering System

AEC is a one-third, non-operating joint venture owner of the Alberta Ethane Gathering System, which transports ethane for five shippers under long-term transportation agreements. The take-or-pay volume commitments are for 255,000 barrels per day. Volumes from seven Alberta gas plants, located at Waterton, Empress (four plants), Cochrane and Edmonton, are delivered to ethylene plants at Joffre and Fort Saskatchewan, Alberta, and to storage caverns at Fort Saskatchewan, Alberta, for subsequent batching through another pipeline to eastern Canada and to the U.S. mid-west.

The predominantly 10-inch diameter gathering system is approximately 550 miles long with a total combined peak capacity of 300,000 barrels per day. The west leg of the system has a capacity of 74,000 barrels per day and the east leg of the system was expanded during 2000 to increase capacity from 85,000 barrels per day to 172,000 barrels per day. The capacity of the north leg of the system was increased by 5,000 barrels per day to 65,000 barrels per day in 2001 to accommodate additional flow to Fort Saskatchewan. Shipments in 2001 averaged 193,000 barrels per day (186,000 barrels per day in 2000).

Empress Straddle Plant

AEC has a 35 percent joint venture interest in a PanCanadian operated NGLs extraction plant near Empress, Alberta. The plant is designed to process 1.2 billion cubic feet per day of natural gas. In 2001, the plant processed an average of 1.0 billion cubic feet per day (1.1 billion cubic feet per day in 2000), recovering ethane, propane and heavier hydrocarbons. An ethane deep cut expansion, supported by long term Alberta sales commitments, is anticipated to be completed in the fall of 2003 at an approximate cost of \$50 million and is anticipated to result in up to 19,000 barrels per day of additional ethane production.

Gas Storage

The Gas Storage business unit owns and operates natural gas storage facilities in Alberta, California, and Oklahoma, leases natural gas storage capacity from other storage operators located in the U.S. Gulf Coast and mid-continent regions, markets storage services to third parties, and buys and sells natural gas to earn additional margins while optimizing the use of storage capacity.

AECO Storage Hub

The AECO C HUB™, which is 100 percent owned by AEC, is a major natural gas storage facility and market centre located on the Suffield Block. It has had several significant expansions since start-up and now has a storage capacity of 85 billion cubic feet, a withdrawal capability of 1.8 billion cubic feet per day (about 14 percent of Alberta's peak gas production capacity), injection capability of 1.6 billion cubic feet per day, four compressor plants with a total of 35,650 horsepower, and four storage pools accessed by 61 storage wells.

Hythe Gas Storage Facility

In 1999, AEC expanded its commercial natural gas storage capacity in Alberta through the conversion of a depleted reservoir at Hythe, Alberta to a commercial facility. This expansion added 10 billion cubic feet of working gas capacity, 200 million cubic feet per day of withdrawal capability, and 100 million cubic feet per day of injection capability. The Hythe facility is connected to both the Alberta System of TransCanada PipeLines Limited and the Alliance Pipeline system.

Approximately 54 percent of AEC's Alberta storage capacity, which includes the AECO Storage Hub and the Hythe facility, is provided to third parties on a fee-for-service basis for terms ranging from one to 20 years, with an average remaining term of 3.5 years. The remaining capacity is used to manage AEC's produced gas sales, and as a source of trading margins through the purchase and sale of third party gas. The facility also provides gas marketing support services, including parking, loaned gas, title exchange, and transportation exchange and interhub arrangements.

Wild Goose Gas Storage Facility

In April 1999, Wild Goose Storage Inc. ("Wild Goose"), an indirect wholly owned subsidiary of AEC, commenced commercial operation of a new 14 billion cubic feet storage facility located north of Sacramento, in northern California. The facility, known as the Wild Goose Gas Storage Facility, is California's first independent natural gas storage facility and has withdrawal capability of 200 million cubic feet per day and injection capability of 80 million cubic feet per day. In June 2001, Wild Goose filed an application with the California Public Utilities Commission to approximately double the storage size and approximately triple the withdrawal capacity of the facility. Subject to regulatory approval, the new facilities are expected to be on-line by April 2004.

Salt Plains Gas Storage Facility

In February 2001, Salt Plains Storage Inc., an indirect wholly owned subsidiary of AEC, acquired substantially all of the assets of a 15 billion cubic feet storage facility located in northern Oklahoma. This facility, previously known as the Manchester Gas Storage Facility, and renamed the Salt Plains Gas Storage Facility, has a maximum daily withdrawal capability of 200 million cubic feet per day and a maximum injection capability of 100 million cubic feet per day.

Leased Storage Capacity

AEC Storage and Hub Services Inc., an indirect wholly owned subsidiary of AEC, has entered into contracts to lease storage capacity at the Katy Gas Storage Facility in Texas and the Natural Gas Pipeline Company of America storage facilities in the U.S. mid-continent region. The contracts both have five year terms and are for four billion cubic feet and five billion cubic feet, respectively, commencing April 2000 and April 2001, respectively. As of April 2002, the leased capacity at the National Gas Pipeline Company of America storage facilities is anticipated to increase to 7.2 billion cubic feet.

DISPOSITIONS

Pursuant to two transactions concluded during 2001, AEC sold all of its upstream interests in Argentina for approximately US\$30 million. The Argentine properties had been producing approximately 414 barrels of oil equivalent per day during 2001.

In September 2001, AEC Oil & Gas (USA) Inc., an indirect wholly owned subsidiary of AEC, sold its indirect 100 percent interest in the Jonah Gas Gathering Company, owner of the JGGS, for approximately \$568 million. The JGGS is located in southwest Wyoming and at the date of disposition was comprised of approximately 300 miles of pipeline infrastructure. The JGGS operated at 354 million cubic feet of natural gas per day in 2000.

In December 2001, AEC Cold Lake sold its 100 percent interest in Alberta Oil Sands Pipeline Ltd., owner of the AOSPL System, for approximately \$218 million. At the time of disposition, the AOSPL System was a 430-kilometre pipeline that transported approximately 220,000 barrels per day of crude oil under a long-term transportation agreement with the Syncrude participants. Shipments on the AOSPL System in 2000 averaged 202,700 barrels per day.

AEC continues to review its existing assets and businesses and may effect other dispositions of assets or businesses no longer considered part of its core business.

GENERAL

Sales to Third Party Customers

AEC's principal products are natural gas, conventional crude oil, SSB and NGLs. AEC is also engaged in pipeline transportation, NGLs processing and natural gas storage. There were no sales of crude oil at market prices to subsidiaries which were proportionately consolidated for the year ended December 31, 2001 (\$170.9 million in 2000). For the year ended December 31, 2001, AEC sold \$5.1 million of natural gas at market prices to Syncrude (nil in 2000). In addition, for the year ended December 31, 2001, \$46.2 million (\$54.9 million in 2000) of AEC's consolidated revenues was derived from the Corporation's investments in entities which process or transport NGLs and which are proportionately consolidated. With the exception of the amounts noted above, all other consolidated revenues for the years ended December 31, 2001 and 2000 are derived from sales to third party customers.

Competitive Conditions

All aspects of the oil and gas industry are highly competitive and AEC actively competes with oil and gas and other companies for reserve acquisitions, exploration leases, licenses and concessions, midstream assets and industry personnel.

Environmental Protection

AEC's worldwide operations are subject to government laws and regulations concerning pollution, protection of the environment and the handling and transport of hazardous materials. These laws and regulations generally require AEC to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the use or release of specified substances. The Environment, Health & Safety Committee of AEC's Board of Directors approves environmental policy and oversees compliance with government laws and regulations. Monitoring and reporting programs for environmental, health and safety performance in day-to-day operations, as well as an inspection and audit program are designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for a timely response to an environmental event and remediation/reclamation strategies are utilized to restore the environment.

AEC does not require making material expenditures for compliance with environmental regulations in 2002; however, AEC does expect to incur site restoration costs as existing oil and gas properties are produced. Since 1990, AEC's annual depreciation, depletion and amortization expense for its oil and gas operations has included an accounting provision for future site restoration. The amount provided in 2001 was approximately \$35 million (\$34 million for North America upstream operations and \$1 million for international upstream operations) and AEC has accrued approximately \$118 million (\$115 million for North American upstream operations and \$3 million for international upstream operations) for such future costs at December 31, 2001.

Given AEC's current wells and facilities, the total anticipated future cost over the life of the reserves, less the total amount accrued at December 31, 2001, is estimated to be \$277 million (\$262 million for North American upstream operations and \$15 million for international upstream operations).

Employees

At December 31, 2001, AEC employed 1,786 people on a permanent basis as set forth in the following table:

	<u>Number of Permanent Employees As at December 31, 2001</u>
Upstream	
North America	1,055
International	467
Midstream	
Pipelines and Processing	197
Gas Storage	67
Total	<u><u>1,786</u></u>

Foreign Operations

While 84 percent of AEC's asset base is in North America, AEC is exposed to risks and uncertainties as portions of AEC's operations and related assets are located in countries outside North America, some of which may be considered politically and economically unstable. These operations and related assets may be adversely affected by changes in governmental policy, social instability or other political or economic developments which are not within the control of AEC, including the expropriation of property or the cancellation or modification of contract rights. The Corporation has undertaken to mitigate these risks, where possible and considered warranted.

ITEM 5 SELECTED CONSOLIDATED FINANCIAL INFORMATION

Summary of Financial Information⁽¹⁾

	Year Ended December 31		
	2001	2000	1999
	(\$ million, except per share amounts)		
Revenues, net of royalties and production taxes	6,272.3	5,523.7	2,935.8
Cash flow from operations	2,022.6	2,235.4	946.9
Net earnings ⁽²⁾	823.8	922.0	198.5
Total assets ⁽²⁾	14,097.5	12,381.6	7,662.9
Long-term debt	3,658.0	2,853.9	2,032.5
Project financing debt	584.1	573.1	283.6

Per Share Data⁽²⁾

Cash flow from operations			
Per share – basic	13.55	15.53	7.02
Per share – diluted	12.57	14.89	6.86
Net earnings			
Per share – basic	5.24	6.19	1.42
Per share – diluted	4.98	5.97	1.39

Dividend⁽³⁾

Dividend per common share	0.60	0.40	0.40
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(1) In December 2001, AEC Cold Lake sold its 100 percent interest in Alberta Oil Sands Pipeline Ltd. In September 2001, an indirect wholly owned subsidiary of AEC, sold its indirect 100 percent interest in the Jonah Gas Gathering Company. In February 2001, an indirect wholly owned subsidiary of AEC completed the acquisition of Ballard. In November 2000, AEC completed the acquisition of the 50 percent of the Express Pipeline System and the Marquest Entities that it did not already own. In September 2000, AEC completed the acquisition of the 30 percent minority interest in the Pipelines Partnership it did not already own by purchasing all of the outstanding Class A limited partnership units. In June 2000, AEC completed the acquisition of McMurry. As a result of the McMurry acquisition in June 2000, an indirect wholly owned subsidiary of AEC acquired all of the partnership interests in Jonah Gas Gathering Company. In May 2000, AEC completed the acquisition of all of the issued and outstanding common shares of Westpoint. In May 1999, AEC completed the acquisition of all of the issued and outstanding common shares of Pacalta. All acquisitions have been accounted for using the purchase method with the results of operations included in AEC's consolidated financial statements from the dates of acquisition.

(2) AEC has adopted the new accounting standard as recommended by the Canadian Institute of Chartered Accountants ("CICA") for foreign currency translation and as required by the standard, all prior periods have been restated. Effective January 1, 2000, AEC adopted, retroactively without restating prior years, the liability method of accounting for income taxes as recommended by the CICA. The adoption of the new accounting standard for accounting for income taxes resulted in a change in net earnings. Had the Corporation not adopted the new recommendations, the net earnings for the year 2000 would have been \$908.1 million (\$6.31 per share – basic; \$6.05 per share – diluted).

(3) AEC's dividend policy is examined annually by the Board of Directors.

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

Management's Discussion and Analysis of Financial Condition for the year ended December 31, 2001, accompanying the 2001 audited consolidated financial statements, is incorporated by reference.

ITEM 7 MARKET FOR SECURITIES

All the outstanding common shares of AEC are listed and posted for trading on The Toronto Stock Exchange and the New York Stock Exchange. The Corporation's 8.50% and 9.50% Preferred Securities are listed and posted for trading on The Toronto Stock Exchange and the New York Stock Exchange, respectively.

ITEM 8 DIRECTORS AND OFFICERS

The following information is provided for each director and executive officer of AEC as at the date of this AIF:

Directors

<u>Name and City of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
Michael N. Chernoff ⁽²⁾⁽⁶⁾ Vancouver, British Columbia	June 15, 1999	Corporate Director
Ian W. Delaney ⁽³⁾⁽⁵⁾ Toronto, Ontario	April 21, 1999	Chairman of the Board Sherritt International Corporation <i>(Nickel/cobalt mining, oil and gas production, electricity generation)</i>
Richard F. Haskayne, O.C. ⁽¹⁾⁽³⁾⁽⁴⁾ Calgary, Alberta	April 8, 1992	Chairman of the Board TransCanada PipeLines Limited <i>(Pipelines and energy services)</i> Chairman, Fording Inc. <i>(Coal export, wollastonite producer)</i>
John C. Lamacraft ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Toronto, Ontario	February 13, 1996	Chairman of the Board Aber Diamond Corporation <i>(Diamond marketing company)</i>
Dale A. Lucas ⁽¹⁾⁽²⁾⁽⁵⁾ Calgary, Alberta	April 9, 1997	President D. A. Lucas Enterprises Inc. <i>(International energy project consulting)</i>
Hon. Donald S. Macdonald, P.C., C.C. ⁽¹⁾⁽²⁾⁽⁴⁾ Toronto, Ontario	April 8, 1992 ⁽⁷⁾	Senior Advisor UBS Bunting Warburg Inc. <i>(Investment and brokerage firm)</i>
Stanley A. Milner, A.O.E., LL.D. ⁽⁸⁾ Edmonton, Alberta	October 8, 1974	President and Chief Executive Officer Chieftain Financial Ltd. <i>(Investment company)</i>
Gwyn Morgan, P.Eng. ^{(2a)(5a)} Calgary, Alberta	December 17, 1993	President and Chief Executive Officer Alberta Energy Company Ltd.
Valerie A.A. Nielsen, P.Geoph. ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ . . . Calgary, Alberta	October 1, 1990	Corporate Director
T. Don Stacy ⁽¹⁾⁽²⁾⁽⁶⁾ Houston, Texas	April 8, 1998	Corporate Director

(1) Audit Committee

(2) Environment, Health & Safety Committee

(2a) Ex officio member of the Environment, Health & Safety Committee

(3) Human Resources & Compensation Committee

(4) Nominating & Corporate Governance Committee

(5) Pension Committee

(5a) Ex officio member of the Pension Committee

(6) Reserve Committee

(7) Mr. Macdonald also served as a director of AEC from September 1981 to September 1988.

(8) Chairman of the Board, Chairman of the Nominating & Corporate Governance Committee and ex officio member of other Board Committees.

AEC does not have an Executive Committee of its Board of Directors.

At the date of this AIF, there are 10 directors of the Corporation. The By-Laws of the Corporation provide that all of the directors shall retire from office at the next Annual Meeting of Shareholders and, subject to mandatory retirement age restrictions which have been established by the Board of Directors, all of the directors shall be eligible for re-election.

Executive Officers

<u>Name and City of Residence</u>	<u>Office</u>
Gwyn Morgan Calgary, Alberta	President and Chief Executive Officer
Randall K. Eresman Calgary, Alberta	Vice-President
Brian C. Ferguson Calgary, Alberta	Vice-President, Corporate Communications and Corporate Secretary
Hector J. McFadyen Calgary, Alberta	Vice-President
R. William Oliver Calgary, Alberta	Vice-President
Drude Rimell Calgary, Alberta	Vice-President, Corporate Services
John D. Watson Calgary, Alberta	Vice-President, Finance and Chief Financial Officer

During the last five years, all of the directors and executive officers have served in various capacities with AEC or have held the principal occupation indicated opposite their names except Messrs. Chernoff, Haskayne, Lamacraft, Milner and Stacy who are directors, and Messrs. Eresman and Ferguson who are executive officers.

Mr. Chernoff is a geologist and engineer by profession. He was President of Pacalta Resources Ltd. from 1988 to 1996 and Chairman of the Board from 1988 to May 1999. Mr. Haskayne is currently Chairman of the Board of Directors of TransCanada PipeLines Limited. He was the Chairman of NOVA Corporation ("NOVA") (1992 to 1998) until NOVA merged with TransCanada PipeLines Limited in July 1998. Mr. Haskayne also serves as Chairman of Fording Inc. and as a director of Weyerhaeuser Company. Mr. Lamacraft is currently Chairman of Aber Diamond Corporation and serves as a director of VFC Inc. He served as Chairman and a director of Jascan Resources Inc. from July 1989 to October 2000. He served as President and Chief Executive Officer of Conwest Exploration Company Limited from 1979, and as a director from 1974 until January 1996 when Conwest Exploration Company was acquired by the Corporation. Mr. Macdonald retired as Counsel at McCarthy Tétrault LLP in March 2000. He has acted as a Corporate Director since that time and as Senior Advisor for UBS Bunting Warburg Inc. since October 2000. Mr. Milner is currently President and Chief Executive Officer of Chieftain Financial Ltd. He was President and Chief Executive Officer of Chieftain International, Inc. from 1989 until August 2001 when Hunt Oil Canadian Acquisition III Corporation acquired Chieftain International, Inc. Mr. Stacy serves as a director of Agrium Inc., Noble Affiliates Inc. and Hydril Company. He was Chairman and President of Amoco Canada Petroleum Ltd. from 1986 to 1993, and then Chairman and President of Amoco Eurasia Petroleum Company Ltd. from 1993 to 1997.

Mr. Eresman has served in various positions with AEC since 1980. He was appointed Vice-President in October 1998 and President of AEC Oil & Gas Partnership in November 1999. Mr. Ferguson has held various financial and regulatory positions with AEC since 1984. He was appointed Vice-President, Corporate Communications and Corporate Secretary in December 2000.

All of the directors and executive officers of AEC listed above beneficially owned, as of February 20, 2002, directly or indirectly, or exercised control or direction over 978,692 common shares representing 0.7 percent of

the issued and outstanding voting shares of AEC, and directors and executive officers held options to acquire an additional 1,537,500 common shares.

Investors should be aware that some of the directors and officers of the Corporation are directors and officers of other private and public companies. Some of these private and public companies may, from time to time, be involved in business transactions or banking relationships which may create situations in which conflicts might arise. Any such conflicts shall be resolved in accordance with the procedures and requirements of the relevant provisions of the *Business Corporations Act* (Alberta), including the duty of such directors and officers to act honestly and in good faith with a view to the best interests of the Corporation.

ITEM 9 ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, principal holders of AEC's securities, and options to purchase securities, is contained in the Information Circular for AEC's most recent annual meeting of shareholders that involved the election of directors. Additional financial information is contained in AEC's audited consolidated financial statements for the year ended December 31, 2001.

When the securities of AEC are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities, AEC will upon request to the Corporate Secretary as listed below, provide to any person the following information:

- (i) one copy of the Corporation's AIF, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF,
- (ii) one copy of the audited consolidated financial statements of AEC for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditor and one copy of the most recent interim financial statements of AEC that have been filed, if any, for any period after the end of its most recently completed financial year,
- (iii) one copy of the information circular of AEC in respect of its most recent annual meeting of shareholders that involved the election of directors, and
- (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above.

At any other time, AEC will, upon request to the Corporate Secretary as listed below, provide to any person one copy of any of the documents referred to in (i), (ii) and (iii) above, provided AEC may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of AEC.

For additional copies of this AIF or any of the materials listed in the preceding paragraphs, please contact:

Brian C. Ferguson
Vice-President, Corporate Communications
and Corporate Secretary
Alberta Energy Company Ltd.
3900, 421 - 7th Avenue S.W.
Calgary, Alberta, Canada T2P 4K9

Corporate Relations Department:
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Alberta Energy Company Ltd.

**2001
Management's Discussion
and Analysis**

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

In the interest of providing Alberta Energy Company Ltd. (“AEC” or the “Company”) shareholders and potential investors with information regarding the Company, certain statements throughout this Management’s Discussion and Analysis (the “MD&A”) contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words such as “anticipate,” “believe,” “expect,” “plan,” “intend,” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the Company’s operating costs, the Company’s seismic and drilling plans, oil and gas prices, per unit netbacks, the Company’s oil, liquids and gas sales, the Company’s cash flow from operations and net earnings, the Company’s production levels, the Company’s share of Syncrude production, development plans with respect to the Company’s Foster Creek SAGD commercial project, the timing of the closing of the sale of the Company’s Colombian assets, the impact of hedges on the Company’s revenue in a low price environment, capital investment levels, the sources of funding for capital investments, the successful completion of the Company’s proposed merger with PanCanadian Energy Company and the timing thereof, and future operating results and various components thereof.

Readers are cautioned not to place undue reliance on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although AEC believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: volatility of crude oil and natural gas prices, fluctuations in currency and interest rates, product supply and demand, market competition, risks inherent in the Company’s North American and foreign oil and gas and midstream operations, risks inherent in the Company’s marketing operations, imprecision of reserves estimates, the Company’s ability to replace and expand oil and gas reserves, the Company’s ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital, general economic and business conditions, the Company’s ability to enter into or renew leases, the timing and costs of well and pipeline construction, the Company’s ability to make capital investments and the amounts of capital investments, imprecision in estimating the timing, costs and levels of production and drilling, the results of exploration, development and drilling, imprecision in estimates of future production capacity, the Company’s ability to secure adequate product transportation, uncertainty in the amounts and timing of royalty payments, imprecision in estimates of product sales, changes in environmental and other regulations, political and economic conditions in the countries in which the Company operates including Ecuador, and such other risks and uncertainties described from time to time in the Company’s reports and filings with the Canadian securities authorities and the United States Securities and Exchange Commission (the “SEC”). Accordingly, the Company cautions that events or circumstances could cause actual results to differ materially from those predicted. Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing list of important factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements contained in this MD&A, which is as of the date hereof, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Management's discussion and analysis of the financial condition and results of operations is to be read in conjunction with the Audited Consolidated Financial Statements. The Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada. A reconciliation to United States GAAP and selected additional financial information is included in Note 20 of the Notes to the Consolidated Financial Statements.

AEC's results are reported in two business groups: Upstream comprises the Company's North America and International gas and oil exploration, production and marketing operations. Midstream includes the Pipelines and Processing and Gas Storage operations. All dollar amounts are denominated in Canadian dollars, unless otherwise noted.

Changes in Accounting Policies

Effective December 31, 2001, the Company adopted the new Canadian standard on accounting for Foreign Currency Translation as recommended by the Canadian Institute of Chartered Accountants ("CICA"). This standard eliminates the deferral and amortization of foreign exchange gains or losses on long term monetary items and is consistent with GAAP in the United States. As the standard requires retroactive adjustment, prior years financial information has been restated. Retained Earnings has been restated for prior years in the fourth quarter, down \$29.0 million and current year's Net Earnings of \$823.8 million has been reduced by \$41.5 million, after providing for income taxes, or \$0.26 per share on a diluted basis. Prior year's Net Earnings of \$922.0 million have been restated on a comparable basis.

Effective December 31, 2000, the Company adopted the new standard established for the calculation of earnings per share. This standard harmonized the calculation methodology used under Canadian and United States GAAP.

Effective January 1, 2000, the Company adopted the liability method of accounting for Income Taxes and the Canadian accounting standard established for Employee Future Benefits.

Additional detail on accounting changes are more fully described in Note 2 of the Notes to the Consolidated Financial Statements.

Subsequent Events

AEC and PanCanadian Energy Corporation ("PanCanadian") announced on January 27, 2002, that their respective Boards of Directors have unanimously agreed to merge the two companies. The combined organization will operate under the name EnCana Corporation ("EnCana").

Under the terms of the agreement, this merger is to be accomplished through an arrangement under the Business Corporations Act of Alberta. Through a Common Share exchange AEC common shareholders will receive 1.472 Common Shares of PanCanadian for each Common Share of AEC they own. The exchange ratio is a market-to-market ratio based on the average of the closing prices of the AEC Common Shares and the PanCanadian Common Shares for the 10 trading days ended Wednesday, January 23, 2002. On completion of the proposed transaction, PanCanadian shareholders will own approximately 54 percent and AEC shareholders will own approximately 46 percent of EnCana. Both Boards of Directors have endorsed the transaction and have received written fairness opinions from their financial advisors. The proposed merger is subject to approvals by the shareholders of both companies, the Court of Queen's Bench of Alberta, and appropriate regulatory and other authorities. The transaction is anticipated to close in early April 2002.

Recognizing that AEC's annual dividend would normally be payable after the expected closing date of the transaction, AEC's Board of Directors declared a dividend of \$0.45 per share payable on March 28, 2002 to AEC shareholders of record on March 7, 2002.

Corporate Acquisitions and Dispositions

In December 2001, the Company completed the sale of Alberta Oil Sands Pipeline Ltd. ("AOSPL") for net cash proceeds of approximately \$218 million as more fully described in Note 4 of the Notes to the Consolidated Financial Statements.

In September 2001, the Company disposed of its 100% interest in Jonah Gas Gathering Company ("Jonah") for consideration of approximately \$568 million as described in Note 4 of the Notes to the Consolidated Financial Statements.

In February 2001, the Company completed the acquisition of Ballard Petroleum LLC, (“Ballard”), an oil and gas production and transportation company with its principal operations in Colorado, for net cash consideration of approximately \$328 million.

The Company also completed the acquisition of a 36% equity interest in a crude oil pipeline between Argentina and Chile (“Trasandino”), for approximately US\$64 million in February, 2001.

In November 2000, the Company acquired the 50% of the Express System and the Marquest companies it did not already own.

In September 2000, the Company acquired the 30% minority interest in AEC Pipelines, L.P. it did not already own.

In June 2000, the Company acquired all of the shares of McMurry Oil Company and other private interests (“McMurry”) engaged in the exploration for, and production of natural gas, and operation of the Jonah natural gas pipeline in the greater Green River basin of Wyoming, USA.

In May 2000, the Company acquired all of the issued and outstanding shares of Westpoint Energy Inc. (“Westpoint”) a company engaged in the exploration for, and production of, natural gas and crude oil in western Canada.

All acquisitions have been accounted for using the purchase method with the results included in the Consolidated Financial Statements from the dates of acquisition as described in Note 3 and Note 9 of the Notes to the Consolidated Financial Statements.

Consolidated Summary

Consolidated Net Earnings for 2001 amounted to \$823.8 million an 11% decrease, or \$4.98 per share, diluted (“per share”) compared to \$922.0 million, or \$5.97 per share, in 2000 (1999 – \$198.5 million; \$1.39 per share).

Consolidated Cash Flow from Operations decreased 10% to \$2,022.6 million in 2001, or \$12.57 per share, from \$2,235.4 million, or \$14.89 per share, in 2000 (1999 – \$946.9 million; \$6.86 per share). Consolidated Revenues, net of royalties and production taxes for 2001 totaled \$6,272.3 million, compared to \$5,523.7 million in 2000, a 14% increase (1999 – \$2,935.8 million).

Consolidated Financial Summary

	2001	2000	1999
		(\$ million)	
Net Earnings	823.8	922.0	198.5
Cash Flow from Operations	2,022.6	2,235.4	946.9
Revenues, net of royalties and production taxes	6,272.3	5,523.7	2,935.8
Diluted per Share (\$ per share)			
Net Earnings	4.98	5.97	1.39
Cash Flow from Operations	12.57	14.89	6.86

Contributions on a quarterly basis are as noted in the following table:

Quarterly Information

Year Quarter	2001 Q4	2001 Q3	2001 Q2	2001 Q1	2000 Q4	2000 Q3	2000 Q2	2000 Q1
	(\$ Million except per share amounts)							
Revenues, net of royalties and production taxes	1,206.4	1,339.2	1,637.9	2,088.8	2,067.2	1,364.7	1,072.8	1,019.0
Net Earnings	79.8	144.2	267.2	332.6	468.8	222.8	111.6	118.8
– per share basic	0.47	0.90	1.70	2.15	3.12	1.51	0.75	0.81
– per share diluted	0.46	0.87	1.62	2.03	2.97	1.48	0.73	0.79
Cash Flow from Operations	219.3	436.1	557.9	809.3	924.9	565.6	377.7	367.2
– per share basic	1.48	2.96	3.70	5.38	6.32	3.95	2.66	2.60
– per share diluted	1.38	2.66	3.32	5.13	6.04	3.75	2.54	2.56

The principal factors affecting these results are outlined in the following table:

Factors Affecting Consolidated Results

	2001 Compared to 2000	2000 Compared to 1999
Net Earnings	\$823.8 million, down \$98.2 million – higher natural gas volumes – lower crude oil prices – higher Depreciation, depletion and amortization (“DD&A”) – gain on sale of Jonah and AOSPL pipelines – higher crude oil volumes – higher operating costs – full year impact of the McMurry acquisition	\$922.0 million, up \$723.5 million – higher natural gas prices and volumes – higher crude oil prices and volumes – full year impact of the 1999 Pacalta and part year impact of the McMurry acquisitions – higher income taxes – higher DD&A and operating expenses – higher Gas Storage optimization
Cash Flow from Operations	\$2,022.6 million, down \$212.8 million – higher natural gas volumes from internal growth – full year impact of the McMurry acquisition – lower crude oil prices – higher operating costs – higher crude oil volumes – higher cash income taxes – higher gas royalties – higher cash interest, net – higher pipelines tariff revenue – lower natural gas prices	\$2,235.4 million, up \$1,288.5 million – higher natural gas prices and volumes – higher crude oil prices and volumes – higher operating costs – higher gas volumes from internal growth and the McMurry acquisition – higher oil volumes in International due to the full year impact of the Pacalta acquisition – higher Gas Storage optimization – higher cash income taxes
Revenues, net of royalties and production taxes	\$6,272.3 million, up \$748.6 million – higher produced gas volumes – lower crude oil prices – higher purchased crude oil revenues – higher crude oil volumes – higher purchased gas volumes and prices – higher pipelines tariff revenues – lower produced gas prices	\$5,523.7 million, up \$2,587.9 million – higher produced gas prices and volumes – higher crude oil prices and volumes – higher purchased gas prices and volumes – higher Gas Storage optimization revenues – higher pipeline tariff revenues

Overall expenses increased to \$6,546.3 million in 2001, up \$1,164.1 million from the 2000 amount of \$5,382.2 million (1999 – \$3,017.2 million).

Consolidated Expense Summary

	2001	2000	1999
		(\$ million)	
Royalties and production taxes	859.7	793.2	263.7
Transportation and selling	300.8	224.0	141.3
Operating costs	917.5	702.0	533.9
Cost of product purchased	2,289.2	1,995.4	1,160.8
General and administrative	80.3	52.4	37.7
Interest, net	256.3	211.0	150.4
Foreign exchange	112.3	24.8	(19.9)
Provision for doubtful accounts	36.0	–	–
DD&A	1,251.6	847.2	596.6
Income taxes	442.6	532.2	152.7
Total	<u>6,546.3</u>	<u>5,382.2</u>	<u>3,017.2</u>

Factors Affecting Expenses

	2001 Compared to 2000	2000 Compared to 1999
Royalties and production taxes	\$859.7 million, up \$66.5 million – higher produced gas and crude oil volumes – lower produced gas and crude oil prices – higher natural gas royalty rates	\$793.2 million, up \$529.5 million – higher produced gas and crude oil prices and royalty rates – higher produced gas and crude oil volumes
Transportation and selling	\$300.8 million, up \$76.8 million – shipping tariffs on higher natural gas and crude oil volumes shipped – a retroactive pipeline tariff payment in 2000 to the government of Ecuador	\$224.0 million, up \$82.7 million – higher natural gas and crude oil volumes shipped – a retroactive pipeline tariff payment to Ecuador
Operating costs	\$917.5 million, up \$215.5 million – higher produced gas production costs – higher bitumen production costs at Syncrude – higher pipeline operations costs due to a higher interest in the Express System – higher Ecuador operating costs due to a full year of Block 15 operations – full year impact of the McMurtry acquisition	\$702.0 million, up \$168.1 million – higher maintenance costs at Syncrude – higher Ecuador operating costs due to a full year of operations, the addition of Block 15 lands and higher diesel and personnel costs – higher produced gas operating costs due to higher volumes and the McMurtry acquisition – higher oil operating costs due to higher volumes
Cost of product purchased	\$2,289.2 million, up \$293.8 million – higher crude oil purchases – lower purchased gas volumes – higher purchased gas prices	\$1,995.4 million, up \$834.6 million – higher purchased gas prices – higher Gas Storage optimization – higher crude oil purchases
General and administrative	\$80.3 million, up \$27.9 million – higher staff levels and benefit costs – higher office rent costs – higher travel costs	\$52.4 million, up \$14.7 million – higher staff levels and benefit costs – higher office rent costs – higher travel costs
Interest, net	\$256.3 million, up \$45.3 million – higher average debt levels – higher capitalized interest	\$211.0 million, up \$60.6 million – higher average debt levels – higher cost of borrowing
Foreign exchange	\$112.3 million, up \$87.5 million – impact of new accounting standard that eliminates the deferral of foreign exchange gains and losses on debt denominated in a foreign currency – decline in the Canadian to U.S. dollar average exchange rate from \$0.673 in 2000 to \$0.646 in 2001	\$24.8 million, up \$44.7 million – impact of retroactive application of the new accounting standard
Provision for doubtful accounts	\$36.0 million, up \$36.0 million – provision for uncollectable accounts receivable resulting from the failure of a major energy trading company	– nil

	2001 Compared to 2000	2000 Compared to 1999
DD&A	\$1,251.6 million, up \$404.4 million – higher produced gas volumes – write-down of capital investments in Congo and Argentina – higher International and North America oil volumes – higher conventional per-unit rate of \$1.35/MCFe in Canada partially offset by a lower rate for the U.S. of \$1.61/MCFe	\$847.2 million, up \$250.6 million – higher North America conventional per-unit rate of \$1.19 in Canada and \$1.80 for the U.S. compared to \$1.00/MCFe equivalent in Canada in 1999 in part a result of new accounting standards for income taxes – higher International oil volumes – higher produced gas volumes – higher North America oil volumes – no property impairment costs
Income taxes	\$442.6 million, down \$89.6 million – lower taxable income from operations – income tax on disposition gains – lower legislated Canadian tax rates	\$532.2 million, up \$379.5 million – higher taxable income – lower effective tax rate

The Company's Upstream production and a portion of its Midstream revenue are subject to fluctuations in U.S. dollar exchange rates either directly, where payment is denominated in U.S. dollars, or indirectly as a result of continental energy pricing in the Canadian market. This exposure is partially offset by U.S. dollar operating costs incurred in foreign operations and U.S. dollar denominated long-term debt. The Canadian dollar average value has declined relative to the U.S. dollar during 2001 after remaining relatively constant in 2000 and 1999. As a result of this decline, foreign exchange losses of approximately \$111.7 million were recorded on the Company's U.S. dollar denominated debt, \$52.9 million of which is unrealized and is related to the adoption of the new Foreign Currency Translation accounting standard. Product sales revenue increased approximately \$138.7 million as a result of the declining exchange rate.

Results of Operations: Upstream

For 2001, Upstream revenues, net of Transportation and selling expenses and Royalties and production taxes, increased 6% or \$243.1 million, to \$4,218.2 million. This compares to an increase in 2000 of 90% or \$1,887.9 million, to \$3,975.1 million. The accompanying table shows the details of these changes by product:

Changes in Oil and Natural Gas Revenues (\$million)

Factor:	2001 Compared to 2000					2000 Compared to 1999				
	Price	Price Hedge	Volume	Royalties & Other	Total	Price	Price Hedge	Volume	Royalties & Other	Total
North America										
Natural Gas and NGLs	(116.2)	32.2	521.6	(197.7)	239.9	1,143.8	55.3	154.2	(274.9)	1,078.4
Oil										
Conventional	(185.8)	42.1	53.0	11.1	(79.6)	137.7	–	65.7	(34.9)	168.5
Syncrude	(57.9)	30.0	44.5	49.6	66.2	169.3	–	(28.0)	(77.7)	63.6
Purchased Gas Sales	234.5	(110.9)	(128.5)	–	(4.9)	527.9	(74.4)	(62.5)	–	391.0
International	(158.8)	20.5	102.3	57.5	21.5	40.8	40.1	242.8	(137.3)	186.4
Total	<u>(284.2)</u>	<u>13.9</u>	<u>592.9</u>	<u>(79.5)</u>	<u>243.1</u>	<u>2,019.5</u>	<u>21.0</u>	<u>372.2</u>	<u>(524.8)</u>	<u>1,887.9</u>

In 2001, the \$(110.9) million Price Hedge represents payments made to financial intermediaries for Purchased Gas Sales under floating to fixed price swap agreements implemented as a part of the Company's risk management strategy when, at the time of settlement, the market price exceeded the fixed price contract amount. Contemporaneously, similar quantities of gas were forward purchased under fixed price agreements, which, upon settlement, were below market prices in the amount of \$268 million. For 2001, this strategy resulted in a net benefit of \$33 million, net of transportation and selling costs of \$124 million.

In 2000, the Company made \$(74.4) million in Price Hedge payments under floating to fixed price swap agreements. Related fixed price gas purchase agreements were at below market prices in the amount of \$124 million and resulted in a net benefit of \$8 million, net of transportation and selling costs of \$42 million.

North America Results of Operations

Natural Gas Prices

Natural gas prices in Canada averaged \$5.25/Mcf, net of transportation and selling expense, down 1% from \$5.32/Mcf in 2000 (1999 – \$2.48/Mcf). In the U.S., the average price was \$5.51/Mcf, which includes \$0.21/Mcf related to a mark to market adjustment at acquisition on fixed priced contracts acquired from McMurry, compared to \$6.83/Mcf in 2000, which included \$1.87/Mcf related to these contracts. Overall the Company realized an average produced gas price of \$5.29/Mcf, down 3% from \$5.44/Mcf in 2000 (1999 – \$2.48/Mcf). The extremely tight balance between supply and demand in the North American market in the first quarter of the year diminished as the year progressed due initially to fuel switching and then to a slowing North American economy. Lower demand from virtually all sectors of the economy, a cool summer and a warm winter led to above average storage inventories contributing to the decline in natural gas prices. Natural gas liquids prices in Canada decreased to \$33.58/bbl from \$37.60/bbl in 2000, following the trend of crude oil prices (1999 – \$20.47/bbl). In the U.S., natural gas liquids prices decreased to \$37.86/bbl from \$48.52/bbl in 2000.

Factors Affecting Natural Gas prices

<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
<ul style="list-style-type: none">– unfavorable impact of decreased North American demand due to fuel switching and the economic downturn– unfavorable impact of a cool summer and above average winter temperatures in the fourth quarter of 2001	<ul style="list-style-type: none">– favorable impact of increased North American demand exceeding current supply growth– favorable impact of return to below average winter temperatures in the fourth quarter of 2000

Natural Gas Volumes

Natural gas sales increased to 1,323 MMcf/d, up 24% from the 2000 total of 1,071 MMcf/d (1999 – 904 MMcf/d). In Canada, the Company produced 1,168 MMcf/d up 20% from the 970 MMcf/d produced in 2000 (1999 – 882 MMcf/d). As a result of declining prices in the last three quarters of 2001, the Company elected to inventory 62 MMcf/d, or a total of 23 Bcf. In the U.S., the Company's production increased from 82 MMcf/d to 217 MMcf/d reflecting a full year of McMurry operations, the addition of the Ballard volumes and continuing growth at Jonah. In 2000, production from the U.S. Rockies averaged 140 MMcf/d of natural gas for the period June through December and 82 MMcf/d on a full year basis.

Factors Affecting Natural Gas Sales and Production Volumes

<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
<ul style="list-style-type: none">– discovery and production at Ladyfern added 93 MMcf/d in 2001– additional production at Suffield, Grande Prairie and the greater Sierra area in northeast British Columbia– full year impact of the McMurry acquisition and 11 month impact of the Ballard acquisition– injection of 23 Bcf of gas into inventory	<ul style="list-style-type: none">– additional production at Suffield, Primrose, Maxhamish, Fort St. John, Deep Basin and the greater Sierra area in northeast British Columbia– addition of McMurry and Westpoint volumes for part of the year– sale of 7 Bcf of gas held in inventory

Purchased gas sales decreased to 534 MMcf/d from 605 MMcf/d in 2000 (1999 – 701 MMcf/d). Revenue from the sale of purchased gas, net of transportation, amounted to \$1,074.4 million, down marginally from \$1,079.3 million in 2000 as a result of higher average unit sales prices (1999 – \$688.3 million). At December 31, 2001, the Company had contracts in place to purchase 125 Bcf of natural gas over a two-year period. Contracts were also in place to deliver 110 Bcf during the same time frame. At year-end, there was 1 Bcf of purchased gas in inventory (2000 and 1999 – 18 Bcf).

Crude Oil Prices

Prices for Canadian conventional crude oil averaged \$22.23/bbl, net of transportation and selling expense, a 28% decrease from the \$30.79/bbl averaged during 2000 (1999 – \$21.64/bbl). Prices for Syncrude oil averaged \$42.02/bbl compared to \$44.47/bbl in 2000, a 6% decrease (1999 – \$27.96/bbl). To manage oil price volatility risk due to the economic downturn, the Company entered into financial swaps for 100,000 bbls/d at an average price of US\$26.71 WTI for September to December 2001. These agreements covered approximately 70% of AEC's oil sales during this period. These contracts resulted in a realized settlement gain of \$92.7 million which was allocated to the oil producing divisions.

Factors Affecting Oil Prices

<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
<ul style="list-style-type: none">– until September 11, 2001, West Texas Intermediate (WTI) averaged US\$27.98/bbl as a result of OPEC's ability to manage supply in a market with slowly dropping demand– the economic slowdown and a dramatic reduction in jet fuel demand post September 11 resulted in a WTI average of US\$21.74/bbl– for the year, WTI decreased from an average of US\$30.20/bbl in 2000 to US\$25.90/bbl in 2001– the Canadian heavy oil pricing differential widened from \$10.34/bbl in 2000 to \$14.40 /bbl in 2001 as a result of reduced heavy oil demand due to two mid-western refinery incidents where Canadian heavy crude is refined– financial swaps mitigated price weakness over the period September to December on 100,000 barrels per day resulting in a net positive impact of \$93 million	<ul style="list-style-type: none">– strong economic growth, OPEC production discipline, and low crude oil inventories has resulted in West Texas Intermediate (WTI) increasing from an average of US\$19.25 in 1999 to US\$30.20/bbl in 2000– the Canadian heavy oil pricing differential increased from \$4.29/bbl in 1999 to \$10.34/bbl in 2000 as a result of an increased supply of heavy oil, high prices for light oil and wide light-heavy differentials for refined products

Crude Oil and Natural Gas Liquids Volumes

The North America group's crude oil production is comprised of conventional production and the Company's share of the Syncrude joint venture. In 2001, North America produced an average of 45,711 bbls/d of conventional oil compared to 40,970 bbls/d produced in 2000, an increase of 12% (1999 – 32,707 bbls/d). Syncrude sales averaged 30,687 bbls/d, an increase of 10% from the 27,897 bbls/d sold in 2000 (1999 – 30,649 bbls/d) due to fewer facility maintenance requirements. Natural gas liquids volumes increased 5% in Canada to 4,998 bbls/d from 4,771 bbls/d (1999 – 5,135 bbls/d). In the U.S. natural gas liquids volumes increased to 2,291 bbls/d from the part year total of 723 bbls/d in 2000.

Factors Affecting North America Oil Production

<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
<ul style="list-style-type: none">– 23% increase in production at Suffield and Pelican Lake partially offset by a decline in light oil production due to dispositions and production decline– 10% higher production from the Company's 13.75% joint venture interest in Syncrude	<ul style="list-style-type: none">– 41% increase in production at Suffield and Pelican Lake– 9% lower production from the Company's 13.75% joint venture interest in Syncrude

Product Unit Netbacks

Product unit netbacks represent the Operating Cash Flow the Company receives, on average, for each unit of product sold. Natural gas netbacks in Canada decreased 8% to \$3.56/Mcf in 2001 from \$3.89/Mcf in 2000 (1999 – \$1.62) due to higher royalties and operating costs. The increase in royalties and operating costs are due to production from higher cost properties in northeast British Columbia and northern Alberta that came on stream in 2001. The U.S. average natural gas netback declined 25% to \$3.68/Mcf from \$4.92/Mcf in the U.S., principally as a result of lower prices and higher operating costs.

North America conventional oil netbacks declined 33% to \$14.49/bbl in 2001, compared to \$21.66/bbl in 2000 due to lower prices and higher operating costs (1999 – \$14.49/bbl). Syncrude netbacks averaged \$19.84/bbl in 2001, an increase of 3% over the \$19.25/bbl received in 2000 (1999 – \$15.33). Lower WTI prices and higher operating costs were partially offset by the Company's oil price hedge program and reduced royalties.

Netbacks received by AEC over the past three years and the factors affecting them are summarized below:

Product Unit Netbacks – Natural Gas

	Canadian Natural Gas			U.S. Rockies Natural Gas		
	2001	2000	1999	2001	2000	1999
	(\$/Mcf)					
Revenues, net of Transportation and selling	5.25	5.32	2.48	5.51	6.83	
Royalties	1.18	1.00	0.43	1.04	1.19	
Production taxes	—	—	—	0.50	0.53	
Operating costs*	0.51	0.43	0.43	0.29	0.19	
Netback including hedge	3.56	3.89	1.62	3.68	4.92	
Hedge	—	—	—	0.21	1.87	
Netback excluding hedge	3.56	3.89	1.62	3.47	3.05	

* Net of cost recoveries

Factors Affecting Unit Netbacks

	2001 Compared to 2000	2000 Compared to 1999
Natural Gas	– in Canada, increased supplier costs, higher maintenance and royalties – in the U.S., lower prices and higher operating costs offset lower royalties	– in Canada, higher natural gas prices were partially offset by an associated increase in royalties

Product Unit Netbacks – Conventional and Syncrude Oil

	North America Conventional Oil			Syncrude		
	2001	2000	1999	2001	2000	1999
	(\$/bbl)					
Revenues, net of Transportation and selling	22.23	30.79	21.64	42.02	44.47	27.96
Gross overriding royalty and other revenue	—	—	—	0.64	0.23	0.58
Royalties	2.79	4.45	2.70	3.08	7.78	0.52
Operating costs*	4.95	4.68	4.45	19.74	17.67	12.69
Netback including hedge	14.49	21.66	14.49	19.84	19.25	15.33
Hedge	2.51	—	—	2.67	—	—
Netback excluding hedge	11.98	21.66	14.49	17.17	19.25	15.33

* Net of cost recoveries

Factors Affecting Unit Netbacks

	<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
Conventional Oil	<ul style="list-style-type: none"> – lower WTI prices were partially offset by lower royalties and the Company's hedge program – the price differential between light and heavy grades of crude increased – operating costs increased 6% due to expanded operations and increased supplier costs 	<ul style="list-style-type: none"> – higher WTI prices were partially offset by higher royalties – the price differential between light and heavy grades of crude increased – operating costs increased 5% due to increased supplier costs resulting from high levels of industry activity
Syncrude Oil	<ul style="list-style-type: none"> – lower WTI prices were partially offset by lower royalties and the Company's hedge program – higher operating costs resulted from higher fuel gas prices, maintenance and bitumen production costs – GORR and other revenue includes proceeds received under a business interruption insurance claim in 2001 	<ul style="list-style-type: none"> – higher WTI prices partially offset by higher royalties – higher operating costs due to higher scheduled and unscheduled maintenance requirements – lower production volumes – full year impact of expiration of the 8% gross overriding royalty in August of 1999

Ecuador Results of Operations

Sales from Ecuador averaged 51,862 bbls/d in 2001, up 20%, compared to 43,358 bbls/d in 2000, (1999 – 25,640 bbls/d) primarily as a result of additional volumes and transportation allocation acquired as a part of the 2000 Block 15 farm-in.

Ecuador sales volumes remain constrained by available pipeline transportation which is allocated among shippers based upon the shippers productive capacity and the quality of crude oil. The completion of the OCP pipeline, more fully described in the Midstream Capital section that follows, is expected to remove current transportation constraints.

The Ecuador oil price declined to an average of \$26.24/bbl in 2001, including the impact of allocated price hedges, compared to \$33.17/bbl in 2000 as a result of higher light-heavy price differentials and a worldwide decline in crude oil prices (1999 – \$20.79/bbl). In June 2000, the Company was assessed a pipeline tariff adjustment retroactive to 1997 in the amount of \$22.8 million or approximately \$1.16/bbl on the related volumes shipped.

Factors Affecting Ecuador Oil Prices

<u>2001 Compared to 2000</u>	<u>2000 Compared to 1999</u>
<ul style="list-style-type: none"> – lower WTI prices – the Ecuador oil price to WTI differential increased from an average of US\$5.59/bbl in 2000 to US\$7.42/bbl in 2001 	<ul style="list-style-type: none"> – the Ecuador oil price to WTI differential increased from an average of US\$3.98/bbl in 1999 to US\$5.59/bbl in 2000 due to higher shipping costs and increased supply of heavy crude in world markets

Netback

	Ecuador Oil		
	2001	2000	1999
		(\$/bbl)	
Revenues, net of Transportation and selling	26.24	33.17	20.79
Royalties	8.10	13.22	7.64
Operating costs	4.98	4.14	3.55
Netback including hedge	13.16	15.81	9.60
Hedge	1.09	—	(4.29)
Netback excluding hedge	<u>12.07</u>	<u>15.81</u>	<u>13.89</u>

Upstream Capital

During 2001, the Upstream business group invested capital of \$2,415.4 million (2000 – \$1,610.1 million) before acquisitions and dispositions. Acquisitions, totaled \$735.3 million (2000 – \$1,425.9 million) and dispositions of non-core properties amounted to \$145.5 million (2000 – \$89.2 million). Total net capital investment for North America operations was \$2,374.1 million (2000 – \$2,487.7 million), \$458.6 million for Ecuador (2000 – \$351.8 million) and \$172.5 for New Ventures Exploration (2000 – \$107.3 million).

Upstream Capital

	2001	2000
	(\$million)	
North America		
Conventional	1,769.0	1,202.4
Syncrude	113.8	68.2
Corporate Acquisitions	296.5	931.1
Property Acquisitions	316.1	358.8
Property Dispositions	(121.3)	(72.8)
Total North America	<u>2,374.1</u>	<u>2,487.7</u>
Ecuador		
Conventional	335.9	215.8
Property Acquisitions	122.7	136.0
Total Ecuador	<u>458.6</u>	<u>351.8</u>
New Ventures		
Congo	50.4	0.8
Gulf of Mexico	48.3	—
Alaska	41.0	34.3
Australia	26.0	22.6
Mackenzie Delta	14.3	36.1
Caspian Sea	1.8	1.7
Other	14.9	28.2
Property Dispositions	(24.2)	(16.4)
Total New Ventures	<u>172.5</u>	<u>107.3</u>
Total Upstream	<u>3,005.2</u>	<u>2,946.8</u>
Other	38.5	16.3
Total	<u>3,043.7</u>	<u>2,963.1</u>

North America Capital

Capital investment including acquisitions and net of dispositions amounted to \$2,374.1 million in North America, (2000 – \$2,487.7 million) broken down as follows:

North America	2001	2000
Conventional	\$2,260.5 million – \$407.4 million on exploration drilling, land and seismic – \$1,361.6 million on development drilling and production facilities – \$296.5 million on corporate acquisitions – \$316.1 million on property acquisitions – \$121.1 million from minor dispositions	\$2,419.8 million – \$283.2 million on exploration drilling, land and seismic – \$919.2 million on development drilling and production facilities – \$931.1 million on corporate acquisitions – \$358.8 million on property acquisitions – \$72.5 million from minor dispositions
Syncrude	\$113.6 million – ongoing capital improvements and construction of Stage 3 expansion	\$67.9 million – ongoing capital improvements, completion of Aurora Mine and engineering of the next expansion

Canada

The significant natural gas discovery at Ladyfern in northeast British Columbia late in 2000 was further developed with the drilling of 9 additional wells and the construction of field facilities. Production started in mid May with gas production averaging 93 MMcf/d on an annualized basis in 2001.

Exploration and development activities were also undertaken in Suffield, Primrose, Pelican Lake and the Greater Sierra area in northeast British Columbia.

At Suffield, the Company drilled 92 oil and 598 shallow gas wells. Average annual production increased by 28 MMcf/d of natural gas and 5,642 bbls/d of oil.

At Pelican Lake, 69 horizontal oil wells were drilled adding average annual production of 1,465 bbls/d.

In the Greater Sierra area of northeast British Columbia 88 gross wells were drilled, land acquisitions added approximately 540,000 net acres, 350 kilometers of pipeline were laid and one processing facility was commissioned. Average annual natural gas production has increased 64 MMcf/d through acquisitions and drilling.

In October 2001, the Company started injecting steam at its Foster Creek steam-assisted gravity drainage project (“SAGD”) in northeast Alberta. Production reached 8,000 bbls/d in December and facilities are in place to reach 20,000 bbls/d in 2002.

Property acquisitions in the Boyer area of northwest Alberta added approximately 314,000 net acres of land and increased natural gas production by 17 MMcf/d.

Proceeds received on the disposal of non-core assets amounted to \$121.1 million (2000 – \$72.5 million).

Syncrude

Net investments in AEC Syncrude totaled \$113.6 million primarily directed to sustaining production and construction of the Stage 3 expansion.

Major Capital Projects

<u>2001</u>	<u>2000</u>
<ul style="list-style-type: none"> – development of the Company's Ladyfern discovery – at Suffield, the oil and accelerated shallow gas development program – Pelican Lake oil development – natural gas exploration and development in the Greater Sierra area of northeast British Columbia – commissioned phase 1 of the SAGD commercial facility – Primrose Block gas development 	<ul style="list-style-type: none"> – at Suffield, the deep rights acquisition, oil development and accelerated shallow gas program – Primrose Block gas development – Pelican Lake oil development – natural gas exploration and development in the Greater Sierra area of northeast British Columbia – received regulatory approval and commenced construction of the SAGD commercial project

United States

The Company continues to develop and expand its operations in the U.S. Rockies. As a follow up to its June 2000, acquisition of McMurry, the Company drilled 12 exploration and 75 development wells, increasing production to 181 MMcf/d, from the Jonah field.

The February 2001, acquisition of Ballard added producing properties and approximately 280 Bcf equivalent of natural gas reserves on a proven plus one-half probable (established) basis, in the Mamm Creek field of the Piceance Basin in northwest Colorado. For 2001, daily production averaged 36 Mcf of gas. The acquisition also included a gas pipeline system at Mamm Creek and approximately 175,000 net undeveloped acres most of which offset the Mamm Creek field. During the year the Company drilled 69 development wells on the acquired lands.

Ecuador Capital

Investments in AEC's Ecuador operations, amounted to \$458.6 million in 2001 compared to \$351.8 million in 2000. In addition to ongoing exploration, the Company continues to develop productive capacity for the anticipated 2003 start up of the new OCP pipeline. During 2001 average drilling costs of development wells was reduced from \$4.5 million to \$2.2 million per well. In 2001, \$122.7 million was invested under the farm-in agreement related to a 40% interest in Block 15.

	<u>2001</u>	<u>2000</u>
ECUADOR	\$458.6 million – \$335.9 million exploration wells and facilities development in preparation for the new OCP pipeline – \$122.7 million related to the farm-in agreement on Block 15	\$351.8 million – \$215.8 million on exploration, development – \$136.0 million acquisition of the Block 15 interest

New Ventures Capital

Congo

During the year, the Company participated in two exploration wells offshore the Republic of Congo, neither of which found commercial quantities of hydrocarbons and both were abandoned. The Company withdrew from the Congo and expensed \$50.8 million before income taxes, or \$39.8 million after income taxes, in the fourth quarter.

Alaska

In the first quarter, the Company participated in one exploration well which was unsuccessful and was abandoned. The Company landholdings are approximately 1.3 million net acres. Drilling is scheduled for the McCovey, Grizzly Gomo, and Heavenly prospects in 2002.

Gulf of Mexico

In October 2001, the Company signed an agreement with a major U.S. based integrated energy company to explore more than 460,000 acres of deep water prospects in the Gulf of Mexico. Under the agreement, AEC has a working interest of between 12.5 and 15 percent in drilling four deep water exploration wells on 33 blocks. AEC also holds separate options to own a 12.5 to 50 percent interest in seven other prospects located on 48 blocks. Results from the first two wells drilled are being evaluated.

Australia

In Australia, (2001 – \$26.0 million; 2000 – \$22.6 million) the appraisal of the John Brooks natural gas discovery (25% AEC) and Puffin – 5 oil discovery (60% AEC) continued on the Australian Northwest Shelf. Drilling of an additional Puffin appraisal well plus two exploration wells on other blocks, did not yield commercial quantities and they were abandoned. Two wells are planned in the first quarter of 2002 to fulfil existing commitments.

Mackenzie Delta

Activity in the Mackenzie Delta during the year centered on the Company's seismic program. The Company's land position remained at 200,000 net acres.

Caspian Sea

Drilling of the Alov prospect in the Caspian Sea is subject to the resolution of certain international boundary disputes in the area. Current planning anticipates drilling could commence in 2004.

Bahrain

In December 2001, AEC agreed to farm-in to a 40 percent non-operating interest in Block 5 in Bahrain. This agreement is subject to the approval of the Government of Bahrain and will require the Company to fund some technical studies and the drilling of two exploration wells prior to the end of 2004. AEC's farm-in cost is estimated to be US\$19 million.

Other and Property Dispositions

An additional \$14.9 million (2000 – \$28.2 million) was invested in new ventures exploration in other countries including Colombia and Argentina. After an assessment of the future development and market potential the Company sold its remaining Argentina upstream holdings in the third quarter and expensed \$51.1 million, before and after income taxes, as additional DD&A. In addition, the Company has decided to sell its Colombian assets, the disposition of which is anticipated to close in the first half of 2002.

	2001	2000
NEW VENTURES	\$172.5 million	\$107.3 million
	– exploration drilling in new potential platform candidates	– exploration drilling in new potential platform candidates

An additional \$38.5 million was invested in leasehold improvements, computer hardware and a new enterprise system supporting key financial and operating reporting.

Reserves Replacement and Valuation

Reserve replacement costs are a measure of an exploration company's ability to economically replace oil and gas reserves. In 2001, excluding New Ventures, the Company invested \$2,655.9 million or \$8.10/bbl of oil equivalent ("BOE") in conventional reserve additions on a proven plus half probable basis ("established"), including acquisitions, compared to \$2,759.6 million (\$6.87 per BOE) in 2000. The recycle ratio, which measures the netback received relative to replacement costs incurred, is 2.3 times on a BOE basis in 2001 compared to

3.2 times in 2000, principally as a result of lower netbacks received. BOE amounts are calculated using the international standard conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

The Company evaluates the future value of its oil and gas reserves and compares them to the accounting value of those reserves on a country by country basis and in total, each quarter. This evaluation is as prescribed in the Canadian GAAP Full Cost Accounting Guideline and is known as the ceiling test. At year end, the Company's total reserve value exceeded the specified cost bases by \$2.6 billion (2000 – \$14 billion). Product prices used in this evaluation are determined at December 31 of the respective year. The decline in reserves value resulted from the sharp decline in both natural gas and crude oil prices in 2001, partially offset by increases in reserve volumes. A similar test is prepared in accordance with U.S. GAAP, the results of which are included in Note 20 of the Notes to the Consolidated Financial Statements.

Results of Operations: Midstream

For 2001, Midstream revenues increased 32% to \$1,753.3 million compared to \$1,324.6 million in 2000 (1999 – \$707.3 million).

Factors Affecting Midstream Revenues

	2001 Compared to 2000	2000 Compared to 1999
Pipelines	<ul style="list-style-type: none"> – higher sales of purchased crude oil – full year impact of the 2000 acquisition of the non-owned portion of the Express System and Marquest companies 	<ul style="list-style-type: none"> – increased due to the acquisition of the non-owned portion of the Express System and Marquest companies – acquisition of the Jonah system in June
Natural Gas Storage	<ul style="list-style-type: none"> – revenues increased due to higher third party demand and utilization of natural gas storage facilities 	<ul style="list-style-type: none"> – revenues increased due to higher purchased gas sales associated with the optimization of the facilities in both Canada and the U.S.
Natural Gas Liquids Processing	<ul style="list-style-type: none"> – revenues decreased due to lower prices received for NGLs sold 	<ul style="list-style-type: none"> – revenues increased due to higher prices received for NGLs sold

Pipelines revenue increased from \$730.0 million in 2000 to \$1,144.4 million in 2001 as a result of higher purchased crude oil volumes sold, higher throughputs, and the higher ownership interest in the Express System and Marquest companies for the full year. The revenue from oil sold and the cost of oil purchased by Marquest and shipped on the Express System is reflected in revenue and cost of product purchased, respectively. Marquest revenue included in the Pipelines total amounted to \$870.2 million in 2001 compared to \$564.6 million in 2000 reflecting higher volumes traded and the impact of full year ownership, partially offset by lower average oil prices (1999 – \$361.0 million).

In November 2000, the Company acquired the 50% interest of the Express Pipeline System and Marquest companies and, in September 2000, all the Class A Units of the AEC Pipelines, L.P., representing the 30% of the L.P. it did not already own as described in Note 3 of the Notes to the Consolidated Financial Statements. As a result of the acquisition of the Minority interest in the AEC Pipelines L.P., the Company's Minority interest charges were eliminated in 2001.

During the year, the Company continued a program of natural gas purchases and sales designed to optimize utilization of its storage facilities. This resulted in gas sales of \$509.2 million compared to \$504.5 million in 2000 (1999 – \$146.7 million) which is included in Gas Storage revenue. Operating Cash Flow for 2001 increased to \$116.4 million compared to \$112.2 million in 2000 (1999 – \$29.5 million). At year end 2001, Gas Storage had 14 Bcf of gas in storage in Canada the majority of which has been contracted for delivery and sale in the year 2002. An additional 18 Bcf is held in storage in the U.S.

Midstream Capital

Total Midstream capital investment amounted to \$357.2 million (2000 – \$75.5 million), before corporate acquisitions or dispositions. Corporate acquisitions totaled \$130.9 million compared to \$884.7 million in 2000. Dispositions increased to \$958.3 million compared to \$2.6 million in 2000.

Capital investment in the Pipelines group amounted to \$267.4 million in 2001 (2000 – \$62.7 million). Investments were directed to the Cold Lake Pipeline System expansion, Rifle pipeline acquired as part of the Ballard acquisition, Suffield Pipeline System upgrades and commencement of the OCP pipeline construction in Ecuador. In October 2000, the Company and two industry partners entered into an agreement to expand the Cold Lake Pipeline System and formed the Cold Lake Pipeline Limited Partnership which is 70% owned by the Company. The Company earned its interest in the Cold Lake Pipeline Limited Partnership by contributing its share of the costs to expand the system and by contributing its interest in the existing Cold Lake Pipeline System. This partnership commenced commercial operations in December 2001 and is accounted for as an equity investment. The Cold Lake Pipeline System services several producing fields in north east Alberta and was tied into the Company's SAGD project at Foster Creek during the second quarter, while construction of a 243-kilometre, 200,000 barrel per day expansion of the system was linked to the Express Pipeline System at Hardisty, Alberta in December, 2001.

In December 2001, the Company disposed of its 100% interest in AOSPL and realized a \$63.8 million gain, before income taxes, (\$49.8 million after income taxes). The Company's share of Syncrude oil production will continue to be shipped on AOSPL under the commercial terms in place prior to the disposition.

In September 2001, the Company disposed of its 100% interest in the Jonah Gas Gathering Company partnership for consideration of approximately \$568 million and realized a gain, before income taxes, of \$174.3 million (\$117.8 million after income taxes). Agreements on pipeline access and future tariff rates for AEC's production from the area remain in place at market rates and terms.

In February 2001, Oleoducto de Crudos Pesados (OCP) Ltd. ("OCP Ltd."), through its wholly-owned subsidiary Oleoducto de Crudos Pesados (OCP) Ecuador S.A. ("OCP SA"), entered into an agreement with the Republic of Ecuador for the construction of a 450,000 bbls/d heavy oil pipeline running from the Oriente production area of Ecuador to export facilities on the Pacific coast. Construction of the pipeline is fully underway with completion targeted for the second quarter of 2003. To date, the Company has invested \$26.5 million related to the Company's 31.4% equity interest. In connection with the project, the Company has entered into a 15 year ship or pay transportation agreement with respect to 108,000 bbls/d at commercial rates.

In conjunction with the Ballard acquisition, the Company also acquired a natural gas pipeline known as the Rifle pipeline for \$31.9 million. This pipeline services the Mamm Creek field.

In February 2001, the Company acquired a 36% equity interest in a crude oil pipeline between Argentina and Chile ("Trasandino"), for approximately US\$64 million. The potential effects of the recent economic crises in Argentina are uncertain. To date, anticipated dividend receipts continue to be received. In 2001, receipts amounted to \$16.6 million, approximately half of which came from the Argentine Trasandino company.

In March 2001, the Company disposed of its 100% interest in the Maxhamish gas pipeline for proceeds of \$15.9 million.

In 2001, the Company invested \$19.9 million in its gas storage operations (2000 – \$12.8 million) primarily at the Suffield and Hythe facilities. In February, the Company acquired a gas storage facility located in Grant County Oklahoma for approximately US\$45 million. This facility, renamed Salt Plains Storage, commenced

operations in March. Total storage capacity of facilities directly-owned by the Company is now 124 Bcf with a combined peak injection and withdrawal capacity of approximately 1.9 Bcf/d and 2.4 Bcf/d, respectively.

MIDSTREAM	2001	2000
Pipelines and Processing	<p>\$240.9 million</p> <ul style="list-style-type: none"> – investments in the Cold Lake oil pipeline expansion – pre-disposition additions to the Jonah system – ongoing capital improvements to the Suffield, Express and Platte pipelines <p>\$157.4 million</p> <ul style="list-style-type: none"> – acquisition of an equity interest in the Trasandino pipeline between Argentina and Chile – an equity investment in the OCP pipeline in Ecuador – acquisition of the Rifle pipeline <p>\$958.3 million</p> <ul style="list-style-type: none"> – disposition of the Jonah, AOSPL, Maxhamish and a 30% interest in the Cold Lake pipeline 	<p>\$62.7 million</p> <ul style="list-style-type: none"> – investments in the Alberta Ethane Gathering system, Jonah system and Cold Lake oil pipeline – ongoing capital improvements to the Express and Platte pipelines
Gas Storage	<p>\$69.9 million</p> <ul style="list-style-type: none"> – acquisition of the Salt Plains storage facility <p>\$19.9 million</p> <ul style="list-style-type: none"> – storage facilities upgrades at Wild Goose, Suffield and Hythe 	<p>\$12.8 million</p> <ul style="list-style-type: none"> – expansion of the AECO storage at Suffield

Liquidity and Capital Resources

Consolidated Cash Flow from Operations is determined by deducting cash Interest, cash Income taxes and General and Administrative costs from the Operating Cash Flow generated by the Company's business groups and represents the internally generated liquidity available to the Company. Of the total \$2,022.6 million generated in 2001, (2000 – \$2,235.4 million), \$1,837.2 million originated in the Upstream division (2000 – \$2,073.1 million) and \$185.4 million or 9% of the total, was provided by the Midstream division (2000 – \$162.3 million).

Produced natural gas and natural gas liquids sales provided \$1,325.6 million or 66% of the consolidated total (2000 – \$1,413.8 million), and crude oil added \$537.0 million or 27% (2000 – \$650.0 million), including allocated corporate costs. The Company's product sales revenue is subject to changes in market prices at the time of sale and over the past year prices for both natural gas and oil have been volatile. The Company's ability to increase volumes available for sale, manage the timing of those sales and use of price hedge agreements provided it with some ability to mitigate this price volatility.

Cash Flow from Operations generated from Midstream's Pipeline and Gas Storage leasing operations are largely independent of product prices due to contractual capacity commitments in place on both. Cash flows generated from oil marketing and gas storage optimization are directly influenced by changes in crude oil and natural gas prices.

Consolidated capital investment totaled \$2,741.2 million in 2001 (2000 – \$1,701.9) in existing core areas. An additional \$894.7 million cash was invested in corporate and property acquisitions (2000 – \$1,571.4 million), while non-core corporate and property dispositions amounted to \$951.6 million (2000 – \$91.8 million). Total cash net capital investment of \$2,684.3 million exceeded Cash Flow from Operations by \$661.7 million. The Company utilized long-term debt to fund the difference. In 2000, net capital investment of \$3,181.5 exceeded

Cash Flow from Operations by \$946.1 million. The acquisitions of AEC Pipelines, L.P. minority interest and the Express System interest were funded with a combination of long-term debt, Cash Flow from Operations, long-term debt assumed and the issue of AEC Common Shares.

On a consolidated basis, long-term debt held by the Company, which excludes project financing debt related to the Express System, was \$3,658.0 million at December 31, 2001, up \$804.1 million from the 2000 amount of \$2,853.9 million. Total long-term debt, including the project financing debt of \$584.1 million, is \$4,242.1 million (2000 – \$3,427.0 million).

The Company has six committed revolving credit and term loan facilities with a maximum amount available of approximately \$2.6 billion with terms ranging from one to five years, if not extended. The Company also has a commercial paper program which allows up to \$1 billion of issuance. At December 31, 2001 the Company had revolving credit and term loan borrowings including Commercial Paper of \$350 million. In addition, the Company has the ability to issue up to \$300 million of unsecured debentures by way of a medium-term note shelf prospectus, until September, 2003. In August 2000, the Company put in place a US\$1 billion shelf debt prospectus. US\$500 million was drawn down pursuant to this prospectus in September 2000 and a further US\$500 million was drawn in October 2001. Net proceeds from the US\$500 million 7.375% Notes, due November 1, 2031, were used for the repayment of commercial paper and bank indebtedness. The Company has extended the maturity of its debt portfolio to about 14 years and now has 92 percent of its net long-term debt at fixed interest rates averaging approximately 7 percent. Details of the Company's Long-Term and Project Financing Debt can be found in Notes 10 and 11 of the Notes to the Consolidated Financial Statements.

In addition to long-term debt the Company utilizes alternative financing vehicles to optimize its full cycle returns. These include equity related securities collectively called Preferred Securities, Operating and Capital leases. Payment obligations under these arrangements is summarized in the following table:

<u>Contractual Cash Obligations</u>	<u>Less than 1 year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 years</u>
		(\$ millions)		
Preferred Securities	—	—	—	858.8
Operating leases	34.0	61.7	51.2	57.6
Capital lease	0.8	1.6	21.6	—
Total	<u>34.8</u>	<u>63.3</u>	<u>72.8</u>	<u>916.4</u>

During 2000, the Company issued \$423.3 million (1999 – 413.5 million) in Preferred Securities which are more fully described in Note 13 of the Notes to the Consolidated Financial Statements. The equity nature of these securities results in distributions that are charged directly to Retained Earnings, net of income taxes.

The Company has seven operating leases in place on a variety of moveable field equipment and aircraft which require periodic lease payments and provide for a minimum stipulated return value. If the leases are not renewed and the market value of the equipment is less than the return value the Company could be required to make whole any value deficiency at the end of the lease. The minimum stipulated return values amount to \$144.4 million in 2005, \$114.5 million in 2006 and \$45.8 million in 2007 and beyond. At the inception of the leases the value of the equipment under lease was \$370.3 million.

The Company maintains a separate capital structure for each of its Upstream and Midstream business groups, consistent with the norms for those industries, to recognize the different business profiles, risks and rewards associated with each. The Midstream business group's debt is comprised of Project Financing Debt held by the Express System, and allocated AEC debt to establish an industry benchmark debt-to-capitalization ratio of 60:40. At December 31, 2001, \$3,073.1 million of long-term debt was related to Upstream operations and \$1,169.0 million was included in the Midstream operations, of which \$584.1 million was Project Financing Debt.

On a consolidated basis at December 31, 2001 the Company's debt-to-capitalization ratio was 41:59. The Upstream group's debt-to-capitalization ratio was 37:63 while Midstream remains at a fixed ratio of 60:40.

Under its Normal Course Issuer Bid, AEC purchased approximately 3.56 million shares, for \$211.7 million, at an average price of \$59.47 in 2001. This represents 48% of the maximum allowable buy-back of shares determined at the time the bid was approved on February 21, 2001. Under this bid, AEC is allowed to purchase up to 5 percent, or about 7.5 million, of its issued and outstanding Common Shares in the open market during the 12-month term of the bid.

In 2001 the Company increased the annual Common Share dividend to sixty (\$0.60) cents per Common Share from forty (\$0.40) cents in 2000.

Risk Management

The Company's results are influenced by factors such as product prices, interest and foreign exchange rates, royalties, taxes, operations, and credit risk. Sensitivities to some of these factors are summarized below:

Factor	2002 Impact on Cash Flow from Operations			
	Increase	Decrease	Increase	Decrease
	(\$ million)		(\$ per share diluted)	
Change of US\$0.50/Mcf in the price of natural gas	180	(180)	1.12	(1.12)
Change of US\$3.00 WTI/bbl in the price of oil	98	(39)	0.61	(0.24)
Change of \$0.01 in the value of the Canadian dollar relative to the U.S. dollar	(39)	40	(0.24)	0.25

The Company seeks to manage its risk exposure through a combination of internal controls, sound operating practices, insurance and financial derivatives. Derivatives such as commodity price swap agreements, interest rate swaps, and foreign exchange forward sale contracts are used to reduce specific risk exposures.

In addition to limits established by the Board of Directors on the use of commodity price swap agreements, a rigorous system of internal control procedures has been established. Credit risks are managed by transacting only with pre-authorized counterparties where agreements are in place. Credit limits are established for all parties where a credit risk exposure exists and are closely monitored. During 2001, the Company utilized commodity price swaps, futures contracts and options to manage risks associated with produced gas, crude oil and natural gas purchases and sales.

In November 2001, a significant creditor of the Company was unable to fulfill its credit obligations and, as a result, all contractual obligations were terminated. The Company recorded a provision for doubtful accounts of \$36.0 million to recognize the potential credit loss on November transactions.

The Company has entered into various commodity pricing agreements as a means of managing price volatility. The following table outlines the financial agreements in place at December 31, 2001, excluding physical positions.

	Notional Volume	Prices Received		Unrecognized Gain/(Loss) (\$ Canadian)
Crude Oil				
Costless collars	50,000 bbls/d	US\$22.00/bbl	US\$27.72/bbl	23.9 million
Put options	35,000 bbls/d	US\$20.00/bbl		—
Produced Gas				
AECO Swaps	50.5 Bcf	\$3.41/GJ		11.9 million
NYMEX Swaps	21.4 Bcf	US\$2.31/MMBtu		12.5 million
Basis differential	45.3 Bcf	NYMEX less US\$0.4165/MMBtu		(2.8) million
Purchased Gas				
	42.8 Bcf	\$5.94/Mcf		32.1 million
	25.7 Bcf	\$7.24/Mcf		41.6 million
Storage Optimization				
Purchases	22.4 Bcf	US\$2.95/Mcf		(16.4) million
Sales	36.9 Bcf	US\$3.30/Mcf		30.4 million

The Company has established oil price hedges to mitigate the impact of any potential downside in oil prices. These hedges establish a floor price for the WTI benchmark at US\$22.00/bbl and an average ceiling price of US\$27.72/bbl on 50,000 bbls/d. A WTI floor price has been established on an additional 35,000 bbls/d at US\$20.00/bbl. These contracts are in place for all of 2002. Total cost of all put options was US\$0.67/bbl.

For the period January to September 2002, the Company has sold forward 600 MMcf/d of gas at fixed prices. These sales were contracted when the NYMEX nine-month strip price averaged US\$2.77 per million British thermal units. In Canada, 370 MMcf/d has been contracted for sale at an average AECO equivalent price of \$3.80/Mcf. In the U.S. Rockies, 230 MMcf/d has been sold forward at an average Opal equivalent price of US\$2.61/Mcf. At December 31, 2001 these contracts had an unrealized mark to market gain of \$11.9 million in Canada and US\$7.8 million on the U.S. Rockies contracts.

As part of the Company's ongoing purchased gas business, the Company has entered into contracts to purchase and sell physical volumes of natural gas until October 2003. Certain of these volumes were purchased at fixed prices and sold at index and subsequently fixed by financial swaps. These transactions are matched thereby creating a closed combined physical and financial position.

As part of the gas storage optimization program, the Company has entered into various financial instruments, including futures, fixed-for-floating swaps and basis swaps to manage the price volatility related to optimization inventories and future physical transactions at various price reference points. On a combined basis, these instruments reflect notional purchases of 22.4 Bcf at US\$2.95/Mcf and notional sales of 36.9 Bcf at US\$3.30/Mcf. At December 31, 2001 these financial instruments had a net unrealized mark to market gain of \$14.0 million and settlement dates that extend no later than October 2002.

Foreign exchange contracts in the amount of \$218.3 million are contracted to limit U.S. to Canadian exchange rate fluctuations on the Company's natural gas purchase and sale agreements. These contracts fix the U.S. to Canadian rate of exchange to an average of \$1.48 on \$133.2 million until November 2002 and \$1.42 on \$85.1 million until November 2003. At December 31, 2001 these contracts had an unrealized mark to market loss of \$30.1 million.

With the acquisition of Amber Energy Inc. in 1998, the Company acquired floating-to-fixed interest rate swap contracts and foreign exchange forward sales contracts. Interest rate swap contracts in the amount of US\$40 million remain in place until 2003. At December 31, 2001 these contracts had an unrealized mark to market loss of \$1.0 million.

Additional detail on the Company's financial instruments can be found in Note 15 of the Notes to the Consolidated Financial Statements.

While 84% of AEC's asset base is in North America, the Company is exposed to risks and uncertainties inherent in foreign operations, including regulatory and legislative changes. Events in these operations could have a material adverse effect on the Company. The Company has undertaken to mitigate these risks, where possible and considered warranted.

An active program of monitoring and reporting day-to-day operations is designed to provide assurance that environmental and regulatory standards are met. Contingency plans are in place for timely response to an event.

Outlook

The Outlook that follows excludes the impact of the proposed merger transaction between AEC and PanCanadian.

The Company's production is forecast to increase by approximately 14% on a BOE basis in the year 2002. Commodity price volatility is expected to continue in 2002, with anticipated lower average prices for natural gas and oil than was realized in 2001. The Company's program of natural gas and crude oil price hedges are expected to reduce the revenue impact of lower prices. With those assumptions, and in the absence of a material event, the Company's outlook is for reductions in both Cash Flow from Operations and Net Earnings.

Produced gas sales are expected to grow approximately 17% to between 1.525 and 1.575 Bcf/d compared to 1.323 Bcf/d in 2001. The Company has secured adequate gas pipeline transportation to achieve its forecasted direct sales volumes. Approximately 45% of the Company's 2002 sales will be at AECO based pricing, 30% is subject to fixed price contracts and the balance is priced at NYMEX.

Western Canadian produced natural gas sales in 2002 are forecasted to be in the range of 1.275 to 1.3 Bcf/d, up 16% from 2001. Key growth regions are the Ladyfern and greater Sierra areas in northeast British Columbia, and Boyer area in northwest Alberta. Capital investment for about 770 gross gas wells is planned in 2002.

In the U.S. Rockies, production growth at the Jonah gas field is meeting expectations. An in-fill drilling program at Jonah and at Mamm Creek of approximately 130 gross wells is targeting to bring average daily production to between 250 MMcf/d and 275 MMcf/d, a 21% increase over the previous year's average.

Sales of oil and liquids are expected to grow to between 142,000 and 153,000 bbls/d with approximately the following mix:

- Light and NGLs 28%
- International medium 35%
- North America heavy 37%

Canadian conventional crude oil sales are forecast to be in the range of 55,000 to 60,000 bbls/d for 2002, up 26% over 2001. Growth is anticipated to come from the Foster Creek SAGD project, Pelican Lake and Suffield. Capital investment includes the drilling of 150 gross oil wells.

North America natural gas liquids sales are forecast to be approximately 7,000 bbls/d.

Average natural gas prices in 2002 are expected to decline from 2001 levels until decreased supply, as a result of lower drilling levels, and economic conditions restore the balance between supply and demand. Natural gas netbacks will likely be lower as a result.

During 2002, oil prices are expected to decline somewhat from levels realized in 2001. The extent and length of the economic slowdown and the ability of OPEC to manage world crude oil supply will be key determining factors. Oil netbacks are expected to decline commensurate with the change in oil prices, the impact of which will be mitigated by the oil price hedges in place, and the light-heavy oil pricing differential.

The Company is forecasting operating costs per unit for 2002 as follows:

<u>Operating Costs</u>	<u>2002 Forecast</u>
Natural gas (\$/Mcf)	
Western Canada	0.52
U.S. Rockies	0.35
Total Gas	<u>0.49</u>
Liquids (\$/bbl)	
Western Canada Conventional	5.25
International	4.80
Total Conventional Liquids	<u>5.10</u>
Total Conventional Upstream (\$/BOE)	<u>3.97</u>

In 2002, the Company expects capital investment in core programs to be approximately \$2.1 billion before dispositions. The Upstream group is forecasting to invest \$2.0 billion of which 69% of which is directed to North America exploration and production activities, 21% in Ecuador and 10% is targeted for New Ventures exploration. Midstream capital investment is forecast to be \$120 million, for both Pipeline and Gas Storage operations. Capital that may be required to fund acquisitions, if any, would be in addition to these amounts. The Company is also expecting to divest approximately \$400 million in non-core assets in 2002, resulting in net capital investments of \$1.7 billion in 2002.

	<u>2002 Capital Investment Forecast</u>		
	<u>Exploration</u>	<u>Development</u>	<u>Total</u>
	(\$ million)		
Upstream			
North American conventional	240	840	1,080
SAGD Phase 1	—	40	40
North American New Ventures	170	—	170
Syncrude	—	240	240
Ecuador	50	370	420
International New Ventures	35	—	35
Total Upstream	<u>495</u>	<u>1,490</u>	1,985
Midstream			120
Corporate capital			25
Capital Investment			2,130
Dispositions			(400)
Total Net Capital Investment			<u>1,730</u>

The Company is forecasting to drill up to 1,100 gross wells in 2002, the majority of which will target natural gas.

The Company completed the development of Phase 1 of its Foster Creek SAGD commercial project in the fourth quarter of 2001. Production is expected to reach 20,000 bbls/d by the second quarter of 2002. Development plans for 2002 include construction of a 80-megawatt co-generation plant and an underground crude oil storage cavern.

The Company's share of Syncrude production is anticipated to increase to approximately 32,000 bbls/d in 2002, while per unit operating costs are expected to fall to approximately \$17.25/bbl as a result of lower natural gas prices and mining costs. The 2002 capital investment forecast of \$240 million, includes \$40 million to sustain

the operations and \$200 million for Stage 3 expansion. This expansion is expected to increase the Company's production by an additional 13,000 bbls/d, to 45,000 bbls/d starting in 2005.

In Ecuador, capital investment is forecast at \$420 million, with \$50 million invested in exploration and \$370 million in the continued development of known reserves and production capability in anticipation of the second quarter 2003 startup of the OCP pipeline. The Company is forecasting to drill 44 wells. Production, currently constrained by available pipeline transportation capacity, is expected to be between 50,000 and 54,000 bbls/d.

The Company has allocated \$205 million to New Ventures exploration in 2002. This investment is directed at establishing the Company's next growth platforms and contributing to stronger growth beyond 2002. Under a farm-in agreement, the Company will participate in an expected 3 wells in the Gulf of Mexico in 2002. In addition, seismic and drilling programs are planned in Australia, Alaska and the Mackenzie Delta.

Midstream operations are targeting \$120 million in investments on its Gas Storage and Pipeline operations. Operating Cash Flow is forecast to decline by 25% to approximately \$250 million as a result of the 2001 dispositions of the AOSPL and Jonah pipelines.

In September 2000, the Alberta government announced its intention to reduce general corporate income tax rates from 15.5% to 8.0% over a four year period. The Company anticipates the reduction in the rate of future income taxes will mitigate the impact of anticipated lower taxable Net Earnings.

The Company's rapid growth in recent years has been achieved through a balance of internal growth and acquisitions. The Company continues to pursue opportunities, which may include significant corporate or asset acquisitions, to develop and expand its business and may finance any such acquisitions with debt or equity or a combination of both.

The Company will continue to assess the way in which it finances its operations to achieve its growth targets in a financially prudent manner. The Company's forecasted 2002 growth will require additional productive capacity, the development of which is included in its capital investment program for 2002. At the forecasted level of investment, the Company anticipates funding of this program will be primarily from internally generated Cash Flow from Operations and may also utilize long-term debt and other financing vehicles that optimize full-cycle capital returns.

AEC and PanCanadian announced on January 27, 2002, that their respective Boards of Directors have unanimously agreed to merge the two companies. The combined organization will operate under the name EnCana Corporation (EnCana). The proposed merger is subject to approvals by the shareholders of both companies, the Court of Queen's Bench of Alberta, and appropriate regulatory and other authorities. The transaction is anticipated to close in early April 2002. Upon the successful completion of the transaction, the Outlook for the merged company will reflect the combined operations of AEC and PanCanadian.

February 19, 2002

Alberta Energy Company Ltd.

**CONSOLIDATED FINANCIAL
STATEMENTS**

For the Year Ended December 31, 2001

February 19, 2002

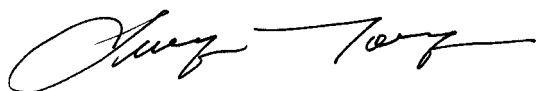
Management Report to the
Shareholders of Alberta Energy Company Ltd.

The accompanying consolidated financial statements of Alberta Energy Company Ltd. are the responsibility of Management. The financial statements have been prepared by Management in accordance with Canadian Generally Accepted Accounting Principles and include certain estimates that reflect Management's best judgements.

The policy of the Company is to maintain the highest standard of ethics in all its activities and it has a written ethics and integrity policy. The Company has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The Company's Internal Audit department reviews and evaluates the adequacy of and compliance with the Company's internal controls.

The Company's Board of Directors has approved the information contained in the financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written charter that conforms, in principle, to the Report and Recommendations of the Blue Ribbon Committee on Improving Effectiveness of Corporate Audit Committees. The Audit Committee meets on a quarterly basis.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the consolidated financial statements and provide an independent professional opinion.



President and Chief Executive Officer
Alberta Energy Company Ltd.



Vice-President, Finance and Chief Financial Officer
Alberta Energy Company Ltd.

AUDITORS' REPORT

To the Shareholders of Alberta Energy Company Ltd.

We have audited the consolidated balance sheets of Alberta Energy Company Ltd. as at December 31, 2001 and December 31, 2000 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and December 31, 2000 and the results of its operations and the changes in its cash position for each of the years in the three-year period ended December 31, 2001, in accordance with Canadian Generally Accepted Accounting Principles.

Calgary, Alberta
Canada
February 8, 2002



Chartered Accountants

Comments by Auditor for U.S. Readers on Canada-U.S. Reporting Differences

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Company's financial statements, such as the change described in Note 2 to the consolidated financial statements. Our report to the shareholders dated February 8, 2002 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the Auditors' Report when the change is properly accounted for and adequately disclosed in the financial statements.

Calgary, Alberta
Canada
February 8, 2002



Chartered Accountants

ALBERTA ENERGY COMPANY LTD.
CONSOLIDATED STATEMENT OF EARNINGS
Year Ended December 31,

		<u>2001</u>	<u>2000</u>	<u>1999</u>
		(Canadian \$ million, except per share amounts)		
Revenues, net of royalties and production taxes	(Note 18)	\$6,272.3	\$5,523.7	\$2,935.8
Expenses				
Transportation and selling		300.8	224.0	141.3
Operating costs		917.5	702.0	533.9
Cost of product purchased		2,289.2	1,995.4	1,160.8
General and administrative		80.3	52.4	37.7
Interest, net	(Note 5)	256.3	211.0	150.4
Foreign exchange		112.3	24.8	(19.9)
Provision for doubtful accounts		36.0	–	–
Depreciation, depletion and amortization	(Note 18)	1,251.6	847.2	596.6
Earnings Before the Undernoted		1,028.3	1,466.9	335.0
Gain on sale of assets	(Note 4)	238.1	–	34.6
Minority interest, AEC Pipelines, L.P.		–	12.7	18.4
Income taxes	(Note 6)	442.6	532.2	152.7
Net Earnings		823.8	922.0	198.5
Preferred securities charges, net of tax	(Note 13)	42.1	31.6	6.7
Net Earnings Attributable to Common Shareholders		<u>\$ 781.7</u>	<u>\$ 890.4</u>	<u>\$ 191.8</u>
Earnings per Common Share				
Basic		\$ 5.24	\$ 6.19	\$ 1.42
Diluted		\$ 4.98	\$ 5.97	\$ 1.39

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year Ended December 31,

		<u>2001</u>	<u>2000</u>	<u>1999</u>
		(Canadian \$ million)		
Balance, Beginning of Year, as Previously Reported		\$1,264.3	\$ 744.7	\$ 627.6
Retroactive Adjustment for Change in Accounting Policy	(Note 2)	(29.0)	4.3	(14.5)
Balance, Beginning of Year, as Restated		1,235.3	749.0	613.1
Adjustment for Change in Accounting Policy	(Note 2)	–	(341.3)	–
Charges for Normal Course Issuer Bid		(138.5)	(6.0)	–
Net Earnings		823.8	922.0	198.5
		1,920.6	1,323.7	811.6
Common Share Dividends		(90.4)	(56.8)	(55.9)
Preferred Securities Charges, Net of Tax		(42.1)	(31.6)	(6.7)
Balance, End of Year		<u>\$1,788.1</u>	<u>\$1,235.3</u>	<u>\$ 749.0</u>

See accompanying Notes to the Consolidated Financial Statements.

ALBERTA ENERGY COMPANY LTD.
CONSOLIDATED BALANCE SHEET
As at December 31,

		<u>2001</u>	<u>2000</u>
		(Canadian \$ million)	
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 104.4	\$ 44.6
Accounts receivable and accrued revenue, net		983.5	1,248.4
Inventories	(Note 7)	320.8	328.5
		<u>1,408.7</u>	<u>1,621.5</u>
Capital Assets	(Note 8)	11,866.8	10,643.4
Investments and Other Assets	(Notes 2 and 9)	822.0	116.7
		<u>\$14,097.5</u>	<u>\$12,381.6</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 1,042.8	\$ 1,172.2
Income taxes payable		241.6	(15.9)
Current portion of long-term debt	(Notes 10 and 11)	49.4	111.5
		<u>1,333.8</u>	<u>1,267.8</u>
Long-Term Debt	(Note 10)	3,658.0	2,853.9
Project Financing Debt	(Note 11)	584.1	573.1
Other Liabilities	(Note 12)	204.5	172.9
Future Income Taxes	(Notes 2 and 6)	2,360.5	2,292.8
		<u>8,140.9</u>	<u>7,160.5</u>
SHAREHOLDERS' EQUITY			
Preferred securities	(Note 13)	858.8	845.2
Share capital	(Note 13)	3,052.3	3,077.4
Retained earnings	(Note 2)	1,788.1	1,235.3
Foreign currency translation adjustment		257.4	63.2
		<u>5,956.6</u>	<u>5,221.1</u>
		<u>\$14,097.5</u>	<u>\$12,381.6</u>

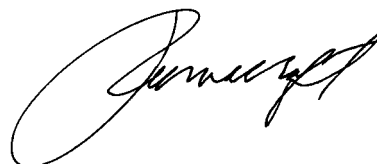
Commitments and contingent liabilities (Note 17)

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board



Director



Director

ALBERTA ENERGY COMPANY LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31,

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Canadian \$ million, except per share amounts)		
Operating Activities			
Net earnings	\$ 823.8	\$ 922.0	\$ 198.5
Depreciation, depletion and amortization	1,251.6	847.2	596.6
Future income taxes	29.2	476.4	182.2
Minority interest, AEC Pipelines, L.P.	—	12.7	18.4
Gain on sale of assets (Note 4)	(238.1)	—	(34.6)
Cash tax on the sale of assets	56.5	—	—
Other	99.6	(22.9)	(14.2)
Cash flow from operations	2,022.6	2,235.4	946.9
Net change in non-cash working capital (Note 16)	477.3	(333.4)	(258.6)
	<u>2,499.9</u>	<u>1,902.0</u>	<u>688.3</u>
Investing Activities			
Corporate acquisitions (Notes 3 and 9)	(426.9)	(1,099.1)	(31.3)
Capital investment	(3,182.5)	(2,174.2)	(1,145.0)
Equity investments (Note 9)	(26.5)	—	—
Proceeds on disposal of assets (Note 4)	951.6	91.8	123.7
Investments and other	(85.1)	(79.8)	1.6
Cash tax on the sale of assets	(56.5)	—	—
Net change in non-cash working capital (Note 16)	(37.9)	134.9	26.8
	<u>(2,863.8)</u>	<u>(3,126.4)</u>	<u>(1,024.2)</u>
Decrease in Cash and Cash Equivalents Before Financing Activities	<u>(363.9)</u>	<u>(1,224.4)</u>	<u>(335.9)</u>
Financing Activities			
Issue of long-term debt	1,264.8	998.5	452.5
Repayment of long-term debt	(553.7)	(148.0)	(416.0)
Issue of preferred securities (Note 13)	—	423.3	413.5
Issue of common shares (Note 13)	48.1	71.1	44.1
Purchase of common shares	(211.7)	(11.2)	—
Common share dividends	(90.4)	(56.8)	(55.9)
Payments to preferred securities holders	(42.1)	(26.9)	(6.7)
AEC Pipelines, L.P. distributions	—	(18.3)	(24.3)
Net change in non-cash working capital (Note 16)	(32.2)	(15.6)	(5.4)
Other	40.9	(15.7)	(27.0)
	<u>423.7</u>	<u>1,200.4</u>	<u>374.8</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>59.8</u>	<u>(24.0)</u>	<u>38.9</u>
Cash and Cash Equivalents, Beginning of Year	<u>44.6</u>	<u>68.6</u>	<u>29.7</u>
Cash and Cash Equivalents, End of Year	<u>\$ 104.4</u>	<u>\$ 44.6</u>	<u>\$ 68.6</u>
Supplemental Disclosure of Cash Flow Information			
Interest paid	\$ 250.6	\$ 208.6	\$ 148.4
Income taxes paid	\$ 103.8	\$ 26.5	\$ 11.8
Cash Flow from Operations per Common Share			
Basic	\$ 13.55	\$ 15.53	\$ 7.02
Diluted	\$ 12.57	\$ 14.89	\$ 6.86
Cash Flow from Operations per Common Share After Preferred Securities Charges			
Basic	\$ 13.27	\$ 15.34	\$ 6.97
Diluted	\$ 12.31	\$ 14.70	\$ 6.82

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(tabular amounts in Canadian \$ million, unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company organizes its operations into two business groups. Upstream includes the Company's North America and International exploration for, and production of, natural gas and crude oil. Midstream includes both the Pipelines and Processing operations and the Gas Storage operations.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. ("the Company") and its subsidiaries.

Investments in jointly controlled companies, jointly controlled partnerships (collectively called "affiliates") and unincorporated joint ventures are accounted for using the proportionate consolidation method, whereby the Company's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

Investments in companies and partnerships in which the Company does not have direct or joint control over the strategic operating, investing and financing decisions, but does have significant influence on them, are accounted for using the equity method.

A listing of major subsidiaries, affiliates, unincorporated joint ventures, partnerships and equity investments is on page G-106.

(b) Measurement Uncertainty

Amounts recorded for depreciation, depletion, and amortization and amounts used for ceiling test calculations, are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

(c) Revenue Recognition

Revenues associated with the sales of natural gas, natural gas liquids and crude oil owned by the Company are recognized when title passes from the Company to its customer.

Revenues associated with the sale of transportation and natural gas storage services are recognized when the services are provided.

(d) Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less when purchased.

(e) Inventories

Inventories are valued at the lower of cost or estimated net realizable value.

(f) Capital Assets

Upstream

Conventional The Company accounts for conventional oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All costs associated with the acquisition of, exploration for, and development of, oil and gas reserves are capitalized in cost centres on a country-by-country basis.

Depreciation, depletion and amortization are calculated using the unit-of-production method based on estimated proved reserves, before royalties. For purposes of this calculation, oil is converted to gas on an energy equivalent basis. All capitalized costs, except as noted, are subject to depreciation, depletion and amortization including costs related to unproved properties as well as estimated future costs to be incurred in developing proved reserves. Costs of exploration and land in international cost centres and certain unproved lands and major development projects in North America are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred.

Future removal and site restoration costs are estimated and recorded over the estimated life of the reserves.

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proved reserves less the cost incurred or estimated to develop those reserves, related production, interest, and general and administrative costs, and an estimate for restoration costs and applicable taxes. The calculations are based on sales prices and costs at the end of the year.

Syncrude Capital assets associated with the Syncrude project are accumulated, at cost, in a separate cost centre. Substantially all of these costs are amortized using the unit-of-production method based on estimated proved developed reserves, applicable to the project.

Midstream

Capital assets related to pipelines, including those held under capital lease, are carried at cost and depreciated or amortized using the straight-line method over their economic lives, which range from 20 to 35 years.

Capital assets related to the Company's natural gas liquids extraction plant operations and gas storage facilities are carried at cost and depreciated using the straight-line method over a term of 20 years.

(g) Foreign Currency Translation

Operations outside of Canada are considered to be self-sustaining and use their primary currency for recording substantially all transactions. The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates while revenues and expenses are converted using average annual rates. Translation gains and losses relating to these subsidiaries are deferred and included in shareholders' equity.

Long-term debt payable in U.S. dollars is translated into Canadian dollars at the year-end exchange rate, with any resulting adjustment recorded in the Consolidated Statement of Earnings.

(h) Interest Capitalization

Interest is capitalized during the construction phase of large capital projects.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee Benefit Plans

The Company accrues for its obligations under its employee benefit plans and the related costs, net of plan assets.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

(j) Hedging Activities

In order to mitigate the risk of market price fluctuations, the Company utilizes options and swaps to hedge future crude oil and natural gas sales. Changes in the market values of these contracts and premiums paid for option contracts are deferred until the hedged item is recognized in income.

(k) Income Taxes

The Company records income taxes using the liability method of accounting. Under the liability method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability. Accumulated future income tax balances are adjusted to reflect substantively enacted income tax rates.

(l) Stock-based Compensation

Amounts received from the exercise of share options under the Employee Share Option Plan are recorded as share capital. Compensation costs have not been recognized for share options granted to employees and directors.

Obligations for cash payments under the Company's share appreciation rights are accrued as compensation expense over the vesting period of the share appreciation rights. Fluctuations in the price of the Company's Common Shares will change the accrued compensation expense and are recognized prospectively when they occur.

(m) Per Share Amounts

Basic earnings per common share and cash flow from operations per common share are computed by dividing the net earnings available to common shareholders and cash flow from operations by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market rate.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Reclassification

Certain prior year amounts in the Consolidated Financial Statements have been reclassified to conform to current year presentation.

2. Changes in Accounting Policies

Foreign Currency Translation

The Company has adopted the new Canadian accounting standard for foreign currency translation and, as required by the standard, all prior periods have been restated. The net earnings impact of this change is included in foreign exchange and income taxes in the Consolidated Statement of Earnings. The impact of this change on the Consolidated Balance Sheet is as follows:

	December 31,					
	2000			1999		
	As Reported	Change	As Restated	As Reported	Change	As Restated
Investments and Other Assets	\$ 150.5	\$(33.8)	\$ 116.7	\$ 54.8	\$ 6.6	\$ 61.4
Future Income Taxes	2,302.3	(9.5)	2,292.8	774.3	2.3	776.6
Retained Earnings	1,264.3	(29.0)	1,235.3	744.7	4.3	749.0

Income Taxes

Effective January 1, 2000, the Company adopted, retroactively without restating prior years, the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA"). The Company adopted the recommendations by recording additional capital assets of \$273.3 million and recording a decrease in retained earnings of \$341.3 million and an increase in future income tax liability of \$614.6 million.

Employee Benefits

On January 1, 2000, the Company prospectively adopted the new CICA recommendations for accounting for employee benefits. The effect on the year 2000 earnings as a result of adopting this new recommendation is not significant.

Impact on Net Earnings

The adoption of the new accounting standard for accounting for foreign currency translation in 2001 resulted in a change in net earnings. Had the Company not adopted the new recommendations, the net earnings for the year 2001 would have been \$865.3 million (\$5.51 per share – basic; \$5.24 per share – diluted).

3. CORPORATE ACQUISITIONS

In February 2001, the Company acquired all of the issued and outstanding shares of Ballard Petroleum, LLC ("Ballard") for net cash consideration of \$328.4 million. Ballard is engaged in the exploration for, and production of, natural gas and operates a natural gas pipeline ("Rifle") in the United States.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

3. CORPORATE ACQUISITIONS (continued)

In May 2000, the Company acquired all of the issued and outstanding shares of Westpoint Energy Inc. ("Westpoint") for cash consideration of \$37.4 million. Westpoint is engaged in the exploration for, and production of, natural gas and crude oil in Western Canada.

In June 2000, the Company acquired all of the shares of McMurry Oil Company and other private interests for cash consideration of \$1,113.5 million and the assumption of associated debt. These companies are engaged in the exploration for, and production of, natural gas ("McMurry") and operate a natural gas pipeline ("Jonah Pipeline") in the United States.

In September 2000, the Company acquired the 30% minority interest in AEC Pipelines, L.P. ("AEC Pipelines") for consideration of 5.0 million Common Shares and cash.

In November 2000, the Company acquired the remaining 50% interest in the Express Pipeline System and Marquest entities ("Express/Marquest") for consideration of 1.7 million Common Shares and cash as well as the assumption of associated debt.

These acquisitions have been accounted for using the purchase method with the results of operations included in the consolidated financial statements from the dates of acquisition.

	<u>2001</u>	<u>2000</u>	<u>2000</u>	<u>2000</u>
	<u>Ballard</u>	<u>Westpoint</u>	<u>McMurry</u>	<u>Total</u>
Upstream				
Fair value of assets acquired:				
Non-cash working capital	\$ (11.7)	\$ (24.0)	\$ (6.5)	\$ (30.5)
Capital assets	307.8	88.2	1,051.9	1,140.1
Other non-current assets	0.4	—	—	—
Future income taxes	—	(26.3)	(151.7)	(178.0)
Other non-current liabilities	—	(0.5)	—	(0.5)
Net assets acquired	<u>\$ 296.5</u>	<u>\$ 37.4</u>	<u>\$ 893.7</u>	<u>\$ 931.1</u>
Financed by:				
Cash consideration	<u>\$ 296.5</u>	<u>\$ 37.4</u>	<u>\$ 893.7</u>	<u>\$ 931.1</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

3. CORPORATE ACQUISITIONS (continued)

	2001	2000			
	Rifle Pipeline	Jonah Pipeline	AEC Pipelines	Express/ Marquest	Total
Midstream					
Fair value of assets acquired:					
Non-cash working capital	\$ 0.5	\$ (67.3)	\$ –	\$ 9.5	\$ (57.8)
Capital assets	31.4	338.2	386.7	358.6	1,083.5
Other non-current assets	–	–	–	27.4	27.4
Future income taxes	–	(21.7)	(190.9)	(19.2)	(231.8)
Other non-current liabilities	–	–	103.0	(39.6)	63.4
Net assets acquired	<u>\$31.9</u>	<u>\$249.2</u>	<u>\$298.8</u>	<u>\$336.7</u>	<u>\$ 884.7</u>
Financed by:					
Cash consideration	\$31.9	\$219.8	\$ 3.0	\$ (54.8)	\$ 168.0
Equity consideration	–	–	295.8	97.0	392.8
Long-term debt assumed	–	29.4	–	294.5	323.9
	<u>\$31.9</u>	<u>\$249.2</u>	<u>\$298.8</u>	<u>\$336.7</u>	<u>\$ 884.7</u>

4. DISPOSITIONS

In 2001, the total proceeds received from the disposal of assets and investments were \$951.6 million (2000 – \$91.8 million; 1999 – \$123.7 million) as described below.

Disposal of Assets

In 2001, the Company sold certain non-core assets for proceeds of \$165.5 million (2000 – \$91.8 million; 1999 – \$44.8 million). In addition, in 1999, the Company sold \$22.7 million of assets that were subsequently leased under a long-term operating lease agreement.

Midstream Assets

On December 31, 2001, the Company completed the sale of its interest in Alberta Oil Sands Pipeline Ltd., owner of a crude oil pipeline in Canada, for net proceeds of \$217.9 million resulting in a pre-tax gain on sale of \$63.8 million (\$49.8 million, after-tax).

On September 28, 2001, the Company completed the sale of its interest in the Jonah Gas Gathering Company, owner of a natural gas pipeline in the United States for \$568.2 million resulting in a pre-tax gain on sale of \$174.3 million (\$117.8 million after-tax).

In 2001, the total proceeds from the disposal of these two Midstream investments was \$786.1 million and the combined pre-tax gain on sale was \$238.1 million (\$167.6 million after-tax).

During the first quarter of 1999, the Company sold its investments in Pan-Alberta Resources Inc. and Iroquois Gas Transmission System L.P. for total proceeds of \$56.2 million and recorded gains on sale of \$34.6 million before income tax.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

5. INTEREST, NET

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest expense – long-term debt	\$274.6	\$219.4	\$151.9
Interest expense – other	6.6	5.9	7.8
Interest income	<u>(10.1)</u>	<u>(8.1)</u>	<u>(6.9)</u>
	271.1	217.2	152.8
Less:			
Capitalized interest	<u>14.8</u>	<u>6.2</u>	<u>2.4</u>
Interest, net	<u>\$256.3</u>	<u>\$211.0</u>	<u>\$150.4</u>

During 2001 and 2000, the Company capitalized interest on the construction of the production facilities at the Company's steam-assisted gravity drainage ("SAGD") project. In 1999, the Company capitalized interest on the SAGD project as well as on the construction of the Wild Goose Storage facility in California.

6. INCOME TAXES

The provision for income taxes is as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current			
Canada	\$324.6	\$ 22.5	\$(30.7)
United States	59.0	14.8	0.2
Ecuador	27.9	17.3	1.0
Other	<u>1.9</u>	<u>1.2</u>	<u>–</u>
	413.4	55.8	(29.5)
Future	<u>29.2</u>	<u>476.4</u>	<u>182.2</u>
Income Taxes	<u>\$442.6</u>	<u>\$532.2</u>	<u>\$152.7</u>

The net future income tax liability is comprised of:

	<u>2001</u>	<u>2000</u>
Future Tax Liabilities		
Capital assets in excess of tax values	\$2,431.9	\$2,380.8
Future Tax Assets		
Accrued expenses and liabilities	4.3	20.2
Future removal and site restoration costs	51.1	40.2
Net operating losses carried forward	–	27.6
Other	<u>16.0</u>	<u>–</u>
	71.4	88.0
Net Future Income Tax Liability	<u>\$2,360.5</u>	<u>\$2,292.8</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

6. INCOME TAXES (continued)

The following table reconciles income taxes calculated at the Canadian statutory rate of 43.33% (2000 – 44.62%; 1999 – 44.62%) with actual income taxes:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Earnings before income taxes	<u>\$1,266.4</u>	<u>\$1,454.2</u>	<u>\$351.2</u>
Income taxes at statutory rate	\$ 548.7	\$ 648.9	\$156.7
Effect on taxes resulting from:			
Non-deductible Canadian crown payments	226.6	190.1	75.6
Canadian Federal resource allowance	(231.4)	(238.7)	(98.9)
Royalties only deducted federally	3.5	12.3	0.9
Non-deductible depreciation, depletion and amortization	–	–	42.8
Asset impairment with no tax benefit	22.4	5.0	–
Previously unrecognized losses	–	(86.6)	(27.8)
Alberta royalty tax credit	(0.5)	(0.6)	(1.4)
Large corporations tax	11.1	12.0	10.5
Statutory rate differences	(80.5)	(29.5)	(6.7)
Effect of tax rate reductions	(75.0)	–	–
Other	<u>17.7</u>	<u>19.3</u>	<u>1.0</u>
	<u>\$ 442.6</u>	<u>\$ 532.2</u>	<u>\$152.7</u>
Effective tax rate	34.9%	36.6%	43.5%

The approximate amounts of tax pools available are (Canadian \$ billion):

	<u>2001</u>	<u>2000</u>
Canada	\$ 4.0	\$ 3.2
United States	1.7	1.4
Ecuador	1.1	0.9
Other	<u>0.1</u>	<u>0.1</u>
	<u>\$ 6.9</u>	<u>\$ 5.6</u>

7. INVENTORIES

	<u>2001</u>	<u>2000</u>
Product		
Upstream	\$ 67.0	\$116.6
Midstream	195.0	151.0
Parts, supplies and other	<u>58.8</u>	<u>60.9</u>
	<u>\$320.8</u>	<u>\$328.5</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

8. CAPITAL ASSETS

	2001			2000		
	Cost	Accumulated DD&A*	Net	Cost	Accumulated DD&A*	Net
Upstream						
North America						
Conventional	\$12,073.8	\$4,069.4	\$ 8,004.4	\$ 9,578.3	\$3,184.5	\$ 6,393.8
Syncrude	899.0	238.5	660.5	782.9	218.7	564.2
International	2,568.5	657.2	1,911.3	1,918.9	369.7	1,549.2
Midstream	1,584.0	293.4	1,290.6	2,594.7	458.5	2,136.2
	<u>\$17,125.3</u>	<u>\$5,258.5</u>	<u>\$11,866.8</u>	<u>\$14,874.8</u>	<u>\$4,231.4</u>	<u>\$10,643.4</u>

* Depreciation, depletion and amortization

Included in Midstream is \$74.9 million (2000 – \$44.4 million) related to cushion gas, required to operate the gas storage facilities, which is not subject to depletion. In the year ended December 31, 2001, \$122.5 million (2000 – \$94.2 million; 1999 – \$90.9 million) of expenditures in International cost centers and \$285.2 million of unproved land (2000 – \$255.1 million; 1999 – \$340.0 million) in North America were excluded from depletable costs.

The prices used in the ceiling test evaluation of the Company's conventional reserves at December 31, 2001 were as follows:

North America – Canada

Natural gas	\$3.39	per thousand cubic feet
Crude oil	\$12.98	per barrel
Natural gas liquids	\$20.63	per barrel

North America – United States

Natural gas	US\$2.29	per thousand cubic feet
Natural gas liquids	US\$18.97	per barrel

International – Ecuador

Crude oil	US\$13.74	per barrel
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Depreciation, depletion and amortization includes \$251.8 million of depletion related to grossed-up acquisition costs (2000 – \$187.0 million). Included in 1999 depreciation, depletion and amortization is \$88.5 million of depletion related to acquisition costs with no income tax basis.

9. INVESTMENTS AND OTHER ASSETS

	2001	2000
Equity investments	\$605.4	\$ –
Deferred financing costs	63.0	54.9
Value added tax recoverable	57.4	–
Other	96.2	61.8
	<u>\$822.0</u>	<u>\$116.7</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

9. INVESTMENTS AND OTHER ASSETS (continued)

Investments in companies and partnerships in which the Company does not have direct or joint control over the strategic operating, investing and financing decisions, but does have significant influence on them, are accounted for using the equity method. Investments in partnerships require the associated income tax to be recorded by the parent company. At December 31, 2001, the principal components of Equity investments were:

	<u>Note</u>	<u>% Ownership</u>	<u>\$ million</u>
Cold Lake Pipeline Limited Partnership	A	70.0	479.1
Oleoducto Trasandino	B	36.0	99.8
Oleoducto de Crudos Pesados (OCP) Ltd.	C	31.4	26.5
			<u>605.4</u>

(A) The Cold Lake Pipeline Limited Partnership ("CLPLP") owns a crude oil pipeline system in northeastern Alberta. The Partnership, beneficially owned by the Company and two other independently traded public entities, was formed on October 5, 2000 and commenced commercial operations on December 21, 2001. The Company earned its interest in the Partnership by contributing its existing interest in the original Cold Lake Pipeline System as well as contributing cash for its share of the costs for a new expansion pipeline between Cold Lake and Hardisty, Alberta and a pipeline lateral connecting producing areas with the Cold Lake Pipeline System. CLPLP is under the control of the General Partner, Cold Lake Pipeline Ltd. The Company and the other sponsors have entered into an agreement whereby the Company has significant influence over the strategic operating, investing and financing decisions of the General Partner and hence, CLPLP, but does not singularly control the General Partner. The agreement does not allow any individual party to exercise joint control. One of the Company's subsidiaries has been appointed operator of the Cold Lake Pipeline System at prescribed commercial fees.

At December 31, 2001, CLPLP had no long-term debt outstanding.

(B) Oleoducto Trasandino owns a crude oil pipeline that ships crude oil from the producing areas of Argentina to refineries in Chile. The Company holds an indirect ownership interest in two companies that it acquired in February 2001 from an existing partner in the system for net cash consideration of US\$64.3 million.

(C) Oleoducto de Crudos Pesados (OCP) Ltd. is the owner of a crude oil pipeline, currently under construction in Ecuador that will ship crude oil from the producing areas of Ecuador to a new export marine terminal.

Summary financial information for these equity investments, on a combined basis, is as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current assets	\$ 70.3	—	—
Non-current assets	361.9	—	—
Current liabilities	16.3	—	—
Non-recourse debt	80.0	—	—
Non-current liabilities	3.5	—	—
Revenues	34.8	—	—
Net earnings	17.1	—	—
Equity earnings (included in Pipelines Revenues)	17.1	—	—

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

10. LONG-TERM DEBT

	<u>Note Reference</u>	<u>2001</u>	<u>2000</u>
Canadian dollar debt			
Revolving credit and term loan borrowings	B	\$ 350.1	\$ 224.9
Unsecured debentures	C	1,425.0	1,275.0
U.S. dollar debt			
U.S. unsecured senior notes	D	1,907.9	1,092.1
U.S. revolving credit and term loan borrowings	B	—	356.9
		<u>3,683.0</u>	<u>2,948.9</u>
Current portion of long-term debt	A	25.0	95.0
		<u>\$3,658.0</u>	<u>\$2,853.9</u>

(A) Mandatory Five-Year Debt Repayments

The minimum annual repayments of long-term debt required over each of the next five years are as follows:

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>
<u>\$25.0</u>	<u>\$100.0</u>	<u>\$231.1</u>	<u>\$81.1</u>	<u>\$81.1</u>	<u>\$3,164.7</u>

(B) Revolving Credit and Term Loan Borrowings

<u>Entity</u>	<u>Currency</u>	<u>Loan Facility</u>	<u>Utilized</u>
		(\$ million)	(\$ million)
Alberta Energy Company Ltd.	Canadian dollars	\$2,318.0	\$350.1
AEC Subsidiaries	Canadian dollars	125.0	—
	U.S. dollars	100.0	—
Total	C\$ Equivalent	<u>\$2,602.3</u>	<u>\$350.1</u>

The Company has three revolving credit and term loan facilities in place totaling \$2,318 million. The facilities are fully revolving for 364-day periods with provisions for extensions at the option of the lenders and upon notice from the Company. If not extended, one facility converts to a non-revolving reducing loan for a term of one year, one for a term of three years and a third for a term of five years.

The three loan facilities are unsecured and currently bear interest either at the lenders' rates for Canadian prime commercial, U.S. base rate loans, Bankers' Acceptance rates or at LIBOR plus applicable margins.

The Company's subsidiaries have three unsecured fully revolving credit and term loan facilities with provisions for extensions at the option of the lender, and upon notice from the respective subsidiary. If not extended, the facilities convert to non-revolving reducing facilities to be repayable in full in one to five years. These facilities bear interest either at the lender's rates for Canadian prime commercial, U.S. base rate loans, Bankers' Acceptance rates or at LIBOR plus applicable margins.

Revolving credit and term loan borrowings include Bankers' Acceptances and Commercial Paper of \$350.1 million (2000 – \$403.0 million) maturing at various dates with a weighted average interest rate of 2.34% (2000 – 6.33%). These amounts are fully supported and management currently expects that they will continue to be supported by revolving credit and term loan facilities that have no repayment requirements within the next year.

Stand-by fees paid in 2001 relating to these agreements were approximately \$2.5 million (2000 – \$1.6 million).

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

10. LONG-TERM DEBT (continued)

(C) Unsecured Debentures

	2001	2000
7.60% due 2001	\$ —	\$ 50.0
9.85% due 2002	25.0	25.0
8.15% due 2003	100.0	100.0
6.60% due 2004	50.0	50.0
7.00% due 2004	100.0	100.0
5.95% due 2007	200.0	200.0
5.95% due 2008	100.0	100.0
5.80% due 2008	100.0	100.0
6.10% due 2009	150.0	150.0
7.15% due 2009	150.0	150.0
8.50% due 2011	50.0	50.0
7.10% due 2011	200.0	—
7.30% due 2014	150.0	150.0
5.50% / 6.20% due 2028	50.0	50.0
	<u>\$1,425.0</u>	<u>\$1,275.0</u>

(D) U.S. Unsecured Senior Notes

Principal Amount	Interest Rate (%)	Interest Payments	Principal Repayment Dates
(US\$ million)			
85.0	7.340	quarterly	2004, 2005, 2006
113.0	6.780	quarterly	2004, 2005, 2006, 2007, 2008
200.0	7.650	semi-annually	2010
300.0	8.125	semi-annually	2030
500.0	7.375	semi-annually	2031

11. PROJECT FINANCING DEBT

	Note Reference	2001	2000
US\$ secured notes	B	\$608.5	\$589.6
Current portion	A	24.4	16.5
		<u>\$584.1</u>	<u>\$573.1</u>

(A) Mandatory Five-Year Debt Repayments

The minimum annual repayments of Project Financing Debt required over each of the next five years are as follows:

2002	2003	2004	2005	2006	Thereafter
<u>\$24.4</u>	<u>\$23.4</u>	<u>\$25.3</u>	<u>\$28.7</u>	<u>\$31.1</u>	<u>\$475.6</u>

(B) U.S. Secured Notes

The Express Pipeline System has outstanding US\$134.6 million aggregate principal amount of senior secured notes due 2013 bearing interest at 6.47% and US\$247.5 million aggregate principal amount of subordinated secured notes due 2019 bearing interest at 7.39% which are non-recourse to the Company. The notes are secured by the assignment of the accounts receivable of the Express Pipeline System and a floating charge over the assets of the Canadian portion of the Express System.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

12. OTHER LIABILITIES

	<u>2001</u>	<u>2000</u>
Future removal and site restoration costs	\$118.2	\$ 90.0
Deferred revenue and other	63.6	51.9
Obligation under capital lease and other	<u>22.7</u>	<u>31.0</u>
	<u>\$204.5</u>	<u>\$172.9</u>

13. PREFERRED SECURITIES AND SHARE CAPITAL

Preferred Securities

<u>Security</u>	<u>Rate (%)</u>	<u>Currency</u>	<u>Principal Amount (\$ million)</u>	<u>Maturity Date</u>
Preferred Securities	8.50	Canadian	200	September 30, 2048
Preferred Securities	9.50	U.S.	150	September 30, 2048
Capital Securities	8.38	Canadian	230	June 27, 2040
Capital Securities	8.50	Canadian	200	December 20, 2040

The Preferred Securities are unsecured junior subordinated debentures. Subject to certain conditions, the Company has the right to defer payments of interest on the securities for up to 20 consecutive quarterly periods. Principal amounts and deferred interest are payable in cash, or at the option of the Company, from the proceeds on the sale of equity securities of the Company delivered to the trustee of the Preferred Securities.

The Capital Securities are unsecured junior subordinated debentures. Subject to certain conditions, including the Company's right to redeem for cash, the securities are exchangeable, at the option of the holder, into Common Shares of the Company. Also, the Company has the right to defer payments of interest on the securities for up to 10 consecutive semi-annual periods. Principal amounts and deferred interest are payable in cash, or at the option of the Company, from the issuance of Common Shares.

Accordingly, the Preferred Securities are classed as equity in the Consolidated Balance Sheet. Annual payments, net of applicable income taxes, are charged directly to retained earnings.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

13. PREFERRED SECURITIES AND SHARE CAPITAL (continued)

Share Capital

Authorized	
20,000,000	First Preferred Shares
20,000,000	Second Preferred Shares
20,000,000	Third Preferred Shares
Unlimited	Common Shares
5,000,000	Non-Voting Shares

	2001		2000	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares				
Balance, beginning of year	149,853,254	\$3,077.4	140,848,150	\$2,618.7
Shares repurchased	(3,560,600)	(73.2)	(276,000)	(5.2)
Issued on acquisition (Note 3)	—	—	6,675,101	392.8
Employee Share Option Plan	1,531,566	45.9	2,575,811	69.4
Shareholder Investment Plan	36,142	2.2	30,192	1.7
Balance, end of year	<u>147,860,362</u>	<u>\$3,052.3</u>	<u>149,853,254</u>	<u>\$3,077.4</u>

The Employee Share Option Plan provides for granting to employees and directors of the Company and its subsidiaries, options to purchase Common Shares of the Company. Each option granted under the plan prior to April 21, 1999 expires after seven years and options granted after April 20, 1999 expire after five years. All options may be exercised in cumulative annual amounts of 25% on or after each of the first four anniversary dates of the grant.

The following tables summarize the information about the share options at December 31, 2001:

	2001		2000	
	Share Options	Weighted Average Exercise Price (\$)	Share Options	Weighted Average Exercise Price (\$)
Outstanding, beginning of year	8,682,465	35.21	9,358,889	30.49
Granted	3,101,200	66.82	2,090,850	46.16
Exercised	(1,531,566)	29.88	(2,575,811)	26.94
Forfeited	(370,138)	44.76	(191,463)	32.24
Outstanding, end of year	<u>9,881,961</u>	45.60	<u>8,682,465</u>	35.21
Exercisable, end of year	4,182,281	32.75	3,672,576	29.42
Available for grant, end of year	3,262,425		2,493,487	

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

13. PREFERRED SECURITIES AND SHARE CAPITAL (continued)

Range of Exercise Price (\$)	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number of Options Outstanding	Weighted Average Exercise Price (\$)
18.25 to 27.20	486,062	1.51	22.77	484,712	22.75
29.55 to 41.10	5,249,767	3.11	33.87	3,350,134	32.21
41.50 to 62.25	1,434,732	3.67	53.81	317,672	50.57
62.32 to 77.25	2,711,400	4.22	67.24	29,763	65.14
	<u>9,881,961</u>		45.60	<u>4,182,281</u>	32.75

The number of Common Shares reserved for issuance under the Employee Share Option Plan was 13,144,386 at December 31, 2001 (11,175,952 at December 31, 2000).

The Company accounts for its stock-based compensation plans using the intrinsic-value method whereby no compensation costs have been recognized in the financial statements for share options granted to employees and directors. As now required by Canadian Generally Accepted Accounting Principles, the impact on compensation costs of using the fair value method, whereby compensation costs had been recorded in net earnings, must be disclosed. If the fair-value method had been used, the Company's net earnings and net earnings per share would approximate the following pro forma amounts:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Compensation Costs	26.9	23.6	19.9
Net Earnings:			
As reported	823.8	922.0	198.5
Pro forma	796.9	898.4	178.6
Net Earnings per Common Share:			
Basic			
As reported	5.24	6.19	1.42
Pro forma	5.06	6.02	1.28
Diluted			
As reported	4.98	5.97	1.39
Pro forma	4.82	5.81	1.25

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	3.53%	6.02%	5.29%
Expected lives (years)	4.0	4.0	4.0
Expected volatility	0.38	0.41	0.31
Dividend per share	\$0.60	\$0.40	\$0.40

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

14. COMPENSATION PLANS

(a) Pensions

The Company sponsors both defined benefit and defined contribution plans providing pension and other retirement and post-employment benefits to substantially all of its employees. The Syncrude joint venture has post-retirement benefits plans for its employees. All of the information pertaining to Syncrude in this note represents the Company's proportionate interest.

The total expense for the defined contribution plans is as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Alberta Energy Company Ltd.	\$4.7	\$2.5	\$2.3
Syncrude Joint Venture	0.6	0.5	0.5
	<u>\$5.3</u>	<u>\$3.0</u>	<u>\$2.8</u>

Information about defined benefit post-retirement benefit plans in aggregate, is as follows:

	<u>Alberta Energy Company Ltd.</u>		<u>Syncrude Joint Venture</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Accrued benefit obligation, beginning of year	\$78.9	\$77.6	\$102.2	\$ 65.4
Opening balance adjustment	—	(6.8)	—	24.8
Current service cost	3.5	3.0	4.0	3.1
Interest cost	5.6	5.1	7.2	6.5
Benefits paid	(3.4)	(2.5)	(4.1)	(3.2)
Actuarial loss	4.6	2.1	10.2	5.6
Contributions	0.4	0.4	—	—
Accrued benefit obligation, end of year	<u>\$89.6</u>	<u>\$78.9</u>	<u>\$119.5</u>	<u>\$102.2</u>
Fair value of plan assets, beginning of year	\$79.0	\$77.6	\$ 82.1	\$ 80.8
Actual return on plan assets	(1.6)	2.9	(4.8)	1.5
Employer contributions	14.8	0.6	3.4	2.6
Employees' contributions	0.4	0.4	—	—
Benefits paid	(3.4)	(2.5)	(3.5)	(2.8)
Fair value of plan assets, end of year	<u>\$89.2</u>	<u>\$79.0</u>	<u>\$ 77.2</u>	<u>\$ 82.1</u>
Funded status – plan (deficit) surplus	\$(0.4)	\$ 0.1	\$(42.3)	\$(20.1)
Unamortized net actuarial loss	15.0	5.6	10.3	11.6
Accrued benefit asset (liability)	<u>\$14.6</u>	<u>\$ 5.7</u>	<u>\$(32.0)</u>	<u>\$ (8.5)</u>

Included in the above accrued benefit obligation and fair value of plan assets at year-end for Alberta Energy Company Ltd. are unfunded benefit obligations of \$12.8 million (2000 – \$10.7 million) related to one of the Company's defined benefit pension plans.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

14. COMPENSATION PLANS (continued)

(a) Pensions (continued)

The significant actuarial assumptions used to determine the periodic expense and accrued benefit obligations are as follows:

Percent (%)	Alberta Energy Company Ltd.		Syncrude Joint Venture	
	2001	2000	2001	2000
Discount rate	6.7	6.9	6.5	9.0
Expected long-term rate of return on plan assets	6.9	6.9	9.0	9.0
Rate of compensation increase	5.0	5.0	4.0	4.0

The periodic expense for employee benefits is as follows:

	Alberta Energy Company Ltd.		
	2001	2000	1999
Current service cost	\$ 3.5	\$ 3.0	\$ 3.3
Interest cost	5.6	5.0	4.2
Expected return on plan assets	(4.6)	(4.5)	(4.3)
Amortization of net actuarial gain	0.1	—	0.2
Amortization of transitional obligation	—	—	0.3
Expense for defined contribution plan	4.7	2.5	2.3
Net benefit plan expense	<u>\$ 9.3</u>	<u>\$ 6.0</u>	<u>\$ 6.0</u>

The average remaining service period of the active employees covered by the pension plan is 12 years.
The average remaining service period of the active employees covered by the other retirement benefits plan is 17 years.

	Syncrude Joint Venture		
	2001	2000	1999
Current service cost	\$ 4.0	\$ 3.1	\$ 2.4
Interest cost	7.2	6.5	7.1
Expected return on plan assets	(7.4)	(7.2)	(8.0)
Amortization of net actuarial (loss)	—	—	(1.2)
Expense for defined contribution plan	0.6	0.5	0.5
Net benefit plan expense	<u>\$ 4.4</u>	<u>\$ 2.9</u>	<u>\$ 0.8</u>

The average remaining service period of the active employees covered by the defined benefit plans is 13.8 years.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

14. COMPENSATION PLANS (continued)

(b) Share Appreciation Rights

The Company has in place a program whereby certain employees are granted Share Appreciation Rights ("SAR's") which entitle the employee to receive a cash payment equal to the excess of the market price of the Company's Common Shares at the time of exercise over the exercise price of the right. SAR's granted after April 20, 1999 expire after five years and may be exercised in cumulative annual amounts of 25% on or after each of the first four anniversary dates of the grant.

The following tables summarize the information about the SAR's at December 31, 2001:

	2001		2000	
	Outstanding SAR's	Weighted Average Exercise Price (\$)	Outstanding SAR's	Weighted Average Exercise Price (\$)
Canadian Dollar Denominated (C\$)				
Outstanding, beginning of year	1,746,677	39.20	837,338	37.34
Granted	512,670	68.48	1,170,212	38.80
Exercised	158,352	39.22	229,873	30.68
Forfeited	152,537	43.36	31,000	36.83
Outstanding, end of year	<u>1,948,458</u>	46.58	<u>1,746,677</u>	39.20
Exercisable, end of year	<u>477,115</u>	38.20	<u>88,840</u>	29.61
US Dollar Denominated (US\$)				
Outstanding, beginning of year	466,450	37.80	—	—
Granted	821,975	43.15	493,450	37.68
Exercised	6,925	36.77	—	—
Forfeited	126,300	39.97	27,000	35.61
Outstanding, end of year	<u>1,155,200</u>	41.38	<u>466,450</u>	37.80
Exercisable, end of year	<u>92,187</u>	38.02	<u>—</u>	—

Range of Exercise Price (\$)	SAR's Outstanding			SAR's Exercisable	
	Number of SAR's Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number of SAR's Outstanding	Weighted Average Exercise Price (\$)
Canadian Dollar Denominated (C\$)					
20.00 to 30.00	50,265	1.03	23.00	50,265	23.00
30.00 to 40.00	1,124,888	2.84	38.72	340,225	39.11
40.00 to 50.00	266,625	2.54	43.03	84,125	43.11
50.00 to 60.00	10,000	3.84	55.45	2,500	55.45
60.00 to 70.00	466,580	4.18	68.19	—	—
70.00 to 80.00	30,100	4.32	73.13	—	—
	<u>1,948,458</u>	3.10	46.58	<u>477,115</u>	38.20

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

14. COMPENSATION PLANS (continued)

(b) Share Appreciation Rights (continued)

During the year, the Company recorded compensation costs of \$18.8 million (2000 – \$5.1 million; 1999 – \$3.1 million) related to the outstanding Share Appreciation Rights.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments that are included in the Consolidated Balance Sheet are comprised of cash, accounts receivable, all current liabilities and long-term borrowings and the Preferred Securities.

(a) Commodity Price Risk

The Company has entered into various commodity pricing agreements as a means of managing price volatility. The following table outlines the financial agreements in place at December 31, 2001, excluding physical positions.

	Notional Volume	Prices Received		Unrecognized Gain/(Loss)
				(\$ Canadian)
Crude Oil*				
Costless collars	50,000 bbls/d	US\$22.00/bbl	US\$27.72/bbl	23.9 million
Put options	35,000 bbls/d	US\$20.00/bbl		–
Produced Gas				
AECO Swaps	50.5 Bcf	\$3.41/gj		11.9 million
NYMEX Swaps	21.4 Bcf	US\$2.31/MMBtu		12.5 million
Basis differential	45.3 Bcf	NYMEX less US\$0.4165/MMBtu		(2.8) million
Purchased Gas ⁽¹⁾				
	42.8 Bcf	\$5.94/Mcf		32.1 million
	25.7 Bcf	\$7.24/Mcf		41.6 million
Storage Optimization ⁽²⁾				
Purchases	22.4 Bcf	US\$2.95/Mcf		(16.4) million
Sales	36.9 Bcf	US\$3.30/Mcf		30.4 million

* These agreements are for a term of one year. The cost of the put options is US\$0.67/bbl for a total cost of C\$13.6 million.

(1) As part of the Company's ongoing purchased gas business, the Company has entered into contracts to purchase and sell physical volumes of natural gas until October 2003. Certain of these volumes were purchased at fixed prices and sold at index and subsequently fixed by financial swaps. These transactions are matched thereby creating a closed combined physical and financial position. At the same time, for the sales made in U.S. dollars, the Company has entered into contracts to sell US\$16 million per month until November 2002 and US\$4 million per month from November 2002 to November 2003. At December 31, 2001, these contracts have an unrealized settlement loss of approximately \$30.1 million on the net position.

(2) As part of the Company's gas storage optimization program, the Company has entered into financial instruments at various locations and terms over the next ten months to manage the price volatility of the corresponding physical transactions and inventories.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Credit Risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. All of the proceeds from the sale of the Company's crude oil production in Ecuador are received from one marketing company. Accounts receivable on these sales are supported by letters of credit issued by a major international financial institution. All foreign currency agreements are with major financial institutions. All natural gas swap agreements are with major financial institutions in Canada and the United States or with counter parties having investment grade credit ratings.

(c) Interest Rate Risk

The Company has an outstanding interest rate swap on a total of US\$40 million of long-term debt. This swap converts fixed rate interest into floating rate interest until January 2003. At December 31, 2001, this swap results in an unrealized loss of \$1.0 million (2000 – \$0.1 million).

At December 31, 2001, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$2.1 million (2000 – \$3.5 million).

(d) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company has significant operations outside of Canada which are subject to these foreign exchange risks.

(e) Fair Values of Financial Assets and Liabilities

The fair values of financial instruments that are included in the Consolidated Balance Sheet, other than long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments.

The estimated fair values of long-term borrowings have been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates that would be available to the Company at year-end.

	2001		2000	
	Balance Sheet Amount	Fair Value	Balance Sheet Amount	Fair Value
Revolving credit and term loan borrowings	\$ 350.1	\$ 350.3	\$ 581.9	\$ 581.8
Unsecured debentures	1,400.0	1,406.0	1,225.0	1,198.5
U.S. unsecured senior notes	1,907.9	1,962.5	1,047.0	1,110.7
Long-Term Debt	<u>\$3,658.0</u>	<u>\$3,718.8</u>	<u>\$2,853.9</u>	<u>\$2,891.0</u>
Project Financing Debt	<u>\$ 584.1</u>	<u>\$ 594.8</u>	<u>\$ 573.1</u>	<u>\$ 580.5</u>
Preferred Securities	<u>\$ 858.8</u>	<u>\$ 912.5</u>	<u>\$ 845.2</u>	<u>\$ 877.5</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

16. SUPPLEMENTARY INFORMATION

(a) Investments Proportionately Consolidated

The Company conducts a substantial portion of its oil and gas activity through unincorporated joint ventures, which are accounted for using the proportionate consolidation method. In addition, the Company's investments in the 35% owned Empress straddle plant and the 33% owned Alberta Ethane Gathering System are proportionately consolidated. Included in the Company's accounts are the following amounts related to these Midstream activities:

	<u>2001</u>	<u>2000</u>
Current assets	\$ 8.9	\$ 21.9
Total assets	33.2	47.8
Current liabilities	4.6	8.6
Total liabilities	9.1	20.6
Revenues	46.2	54.9
Net earnings	3.7	12.8
Cash flow from operations	5.0	21.0
Financing activities	(4.9)	(2.1)
Investing activities	(0.1)	(18.9)

Excluded from the above table are revenues of \$479.7 million and net earnings of \$1.3 million in 2000 related to the activities of the Express Pipeline System and the Marquest entities which were proportionately consolidated prior to the acquisition of the remaining interest in November 2000 (see Note 3).

(b) Related Party Transactions

During the year the Company sold approximately \$5.1 million (2000 – \$170.9 million) of natural gas and crude oil to affiliates at market prices, \$1.1 million of which is included in accounts receivable at year-end (2000 – \$0.2 million).

(c) Net Change in Non-Cash Working Capital

<u>Source/(Use)</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating activities			
Accounts receivable and accrued revenue	\$276.4	\$(512.6)	\$(142.7)
Inventories	8.4	(91.1)	(74.8)
Accounts payable and accrued liabilities	192.5	270.3	(41.1)
	<u>\$477.3</u>	<u>\$(333.4)</u>	<u>\$(258.6)</u>
Investing activities			
Accounts payable and accrued liabilities	<u>\$(37.9)</u>	<u>\$ 134.9</u>	<u>\$ 26.8</u>
Financing activities			
Accounts payable and accrued liabilities	<u>\$(32.2)</u>	<u>\$ (15.6)</u>	<u>\$ (5.4)</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

17. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has committed to certain payments over the next five years as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>
Pipeline transportation	\$186.0	\$231.7	\$245.2	\$230.7	\$220.0	\$1,920.1
Equipment operating leases	16.1	16.1	16.1	16.1	6.2	3.6
Capital lease	0.8	0.8	0.8	0.8	20.8	–
Office rental	17.9	15.2	14.3	14.4	14.5	54.0
Total	<u>\$220.8</u>	<u>\$263.8</u>	<u>\$276.4</u>	<u>\$262.0</u>	<u>\$261.5</u>	<u>\$1,977.7</u>

Legal Proceedings

The Company is involved in various legal claims associated with the normal course of operations. These claims are not currently expected to have a material impact on the financial position or results of operations of the Company.

Future removal and site restoration costs

The Company is responsible for the future removal and site restoration related to its oil and gas properties at the end of their useful lives. The Company currently estimates the total amount of this future liability to be approximately \$395 million of which \$118.2 million has been accrued based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation and changes in costs.

Other

At the inception of the equipment operating leases, the value of the equipment under lease was \$370.3 million. In addition to the equipment operating lease payments noted above, the Company may be required to make payments to the lessor, at the termination of the lease, should there be a decline in the fair market value of the equipment below a defined amount. These amounts, if any, are not currently expected to have a material impact on the financial position or results of operations of the Company.

18. SEGMENTED INFORMATION

The Company is managed using four operating segments, which have been determined based on the location of the operations and the nature of the services provided. Upstream includes the Company's North America and International exploration for, and production of, natural gas and crude oil. Midstream includes both the Pipelines and Processing operations and the Gas Storage operations.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

18. SEGMENTED INFORMATION (continued)

(a) Results of Operations

Upstream

	Western Canada			U.S. Rockies			North America New Ventures			North America Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
Gross Revenues	\$4,330.7	\$4,164.2	\$2,265.6	\$ 488.6	\$ 225.2	–	–	–	–	\$ 4,819.3	\$4,389.4	\$2,265.6
Royalties	574.6	528.0	190.2	91.9	38.7	–	–	–	–	666.5	566.7	190.2
Production Taxes	–	–	–	39.5	15.7	–	–	–	–	39.5	15.7	–
Net Revenues	3,756.1	3,636.2	2,075.4	357.2	170.8	–	–	–	–	4,113.3	3,807.0	2,075.4
Transportation and Selling	219.8	148.7	125.4	20.4	6.8	–	–	–	–	240.2	155.5	125.4
Operating Costs	539.7	448.5	356.6	22.8	6.8	–	–	–	–	562.5	455.3	356.6
Cost of Product Purchased	1,076.5	1,053.2	681.1	–	–	–	–	–	–	1,076.5	1,053.2	681.1
Operating Cash Flow	1,920.1	1,985.8	912.3	314.0	157.2	–	–	–	–	2,234.1	2,143.0	912.3
DD&A	647.1	491.2	385.4	53.0	20.9	–	–	–	–	700.1	512.1	385.4
DD&A – Acquisitions	94.6	101.7	57.5	88.8	38.4	–	–	–	–	183.4	140.1	57.5
Additional DD&A	–	–	–	–	–	34.0	–	–	–	–	–	34.0
Segment Income	\$1,178.4	\$1,392.9	\$ 469.4	\$ 172.2	\$ 97.9	\$(34.0)	–	–	–	\$ 1,350.6	\$1,490.8	\$ 435.4
Net Capital Expenditures	\$1,736.4	\$1,542.8	\$ 764.0	\$ 371.4	\$ 26.3	–	\$ 56.3	\$ 74.2	\$ 2.1	\$ 2,164.1	\$1,643.3	\$ 766.1
Capital Assets												
Canada	\$6,802.6	\$5,801.4	\$4,501.6	–	–	–	\$ 52.8	\$ 38.6	\$ 2.5	\$ 6,855.4	\$5,840.0	\$4,504.1
United States	–	–	–	\$1,721.4	\$1,071.9	\$ 9.7	\$ 88.1	\$ 46.1	–	\$ 1,809.5	\$1,118.0	\$ 9.7

	Ecuador – Crude Oil			International New Ventures			International Total			Upstream Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
Gross Revenues	\$ 557.4	\$ 594.6	\$ 209.9	\$ 2.0	\$ 8.3	\$ 16.7	\$ 559.4	\$ 602.9	\$ 226.6	\$ 5,378.7	\$4,992.3	\$2,492.2
Royalties	153.4	209.8	71.5	0.3	1.0	2.0	153.7	210.8	73.5	820.2	777.5	263.7
Production Taxes	–	–	–	–	–	–	–	–	–	39.5	15.7	–
Net Revenues	404.0	384.8	138.4	1.7	7.3	14.7	405.7	392.1	153.1	4,519.0	4,199.1	2,228.5
Transportation and Selling	60.6	68.2	15.3	–	0.3	0.6	60.6	68.5	15.9	300.8	224.0	141.3
Operating Costs	94.3	65.7	33.2	50.1	34.2	31.3	144.4	99.9	64.5	706.9	555.2	421.1
Cost of Product Purchased	–	–	–	–	–	–	–	–	–	1,076.5	1,053.2	681.1
Operating Cash Flow	249.1	250.9	89.9	(48.4)	(27.2)	(17.2)	200.7	223.7	72.7	2,434.8	2,366.7	985.0
DD&A	109.0	71.2	26.8	1.8	12.6	10.1	110.8	83.8	36.9	810.9	595.9	422.3
DD&A – Acquisitions	54.9	43.8	31.0	–	–	–	54.9	43.8	31.0	238.3	183.9	88.5
Additional DD&A	–	–	–	101.9	–	–	101.9	–	–	101.9	–	34.0
Segment Income	\$ 85.2	\$ 135.9	\$ 32.1	\$(152.1)	\$(39.8)	\$(27.3)	\$(66.9)	\$ 96.1	\$ 4.8	1,283.7	1,586.9	440.2
Less: Corporate Costs												
General and administrative . . .	–	–	–	–	–	–	–	–	–	62.7	40.7	29.0
Corporate DD&A	–	–	–	–	–	–	–	–	–	14.1	10.4	7.9
Interest, net	–	–	–	–	–	–	–	–	–	164.1	161.9	112.8
Foreign exchange	–	–	–	–	–	–	–	–	–	71.8	19.1	(14.9)
Provision for doubtful accounts .	–	–	–	–	–	–	–	–	–	31.2	–	–
Income taxes	–	–	–	–	–	–	–	–	–	379.8	489.5	127.5
Net Earnings	–	–	–	–	–	–	–	–	–	\$ 560.0	\$ 865.3	\$ 177.9
Net Capital Expenditures	\$ 458.6	\$ 351.8	\$ 94.7	\$ 116.2	\$ 33.1	\$ 79.1	\$ 574.8	\$ 384.9	\$ 173.8	\$ 2,738.9	\$2,028.2	\$ 939.9
Capital Assets	\$1,740.8	\$1,395.4	\$1,134.2	\$ 170.5	\$ 153.8	\$134.8	\$1,911.3	\$1,549.2	\$1,269.0	\$10,576.2	\$8,507.2	\$5,782.8

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

18. SEGMENTED INFORMATION (continued)

(a) Results of Operations (continued)

Midstream

	Pipelines and Gas Processing			Gas Storage			Midstream Total			Consolidated Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
Gross Revenues	\$1,182.8	\$ 778.2	\$ 518.7	\$ 570.5	\$ 546.4	\$188.6	\$1,753.3	\$1,324.6	\$ 707.3	\$ 7,132.0	\$6,316.9	\$3,199.5
Royalties	—	—	—	—	—	—	—	—	—	820.2	777.5	263.7
Production Taxes	—	—	—	—	—	—	—	—	—	39.5	15.7	—
Net Revenues	1,182.8	778.2	518.7	570.5	546.4	188.6	1,753.3	1,324.6	707.3	6,272.3	5,523.7	2,935.8
Transportation and Selling	—	—	—	—	—	—	—	—	—	300.8	224.0	141.3
Operating Costs	167.9	116.8	87.0	42.7	30.0	25.8	210.6	146.8	112.8	917.5	702.0	533.9
Cost of Product Purchased	801.3	538.0	346.4	411.4	404.2	133.3	1,212.7	942.2	479.7	2,289.2	1,995.4	1,160.8
Operating Cash Flow	213.6	123.4	85.3	116.4	112.2	29.5	330.0	235.6	114.8	2,764.8	2,602.3	1,099.8
DD&A	59.4	43.2	35.2	12.4	10.0	7.9	71.8	53.2	43.1	882.7	649.1	465.4
DD&A – Acquisitions	13.5	3.1	—	—	—	—	13.5	3.1	—	251.8	187.0	88.5
Additional DD&A	—	—	—	—	—	—	—	—	—	101.9	—	34.0
Gain on Sale of Assets	238.1	—	34.6	—	—	—	238.1	—	34.6	238.1	—	34.6
Segment Income	\$ 378.8	\$ 77.1	\$ 84.7	\$ 104.0	\$ 102.2	\$ 21.6	482.8	179.3	106.3	1,766.5	1,766.2	546.5
Less: Corporate Costs												
General and administrative							17.6	11.7	8.7	80.3	52.4	37.7
Corporate DD&A							1.1	0.7	0.8	15.2	11.1	8.7
Interest, net							92.2	49.1	37.6	256.3	211.0	150.4
Foreign exchange							40.5	5.7	(5.0)	112.3	24.8	(19.9)
Minority interest							—	12.7	18.4	—	12.7	18.4
Provision for doubtful accounts							4.8	—	—	36.0	—	—
Income taxes							62.8	42.7	25.2	442.6	532.2	152.7
Net Earnings							\$ 263.8	\$ 56.7	\$ 20.6	\$ 823.8	\$ 922.0	\$ 198.5
Net Capital Expenditures	\$ 257.5	\$ 63.9	\$ 35.8	\$ 88.0	\$ 12.8	\$ 45.6	\$ 345.5	\$ 76.7	\$ 81.4	\$ 3,084.4	\$2,104.9	\$1,021.3
Capital Assets												
Canada	\$ 332.1	\$ 940.7	\$ 446.1	\$ 141.4	\$ 133.8	\$127.8	\$ 473.5	\$1,074.5	\$ 573.9			
United States	\$ 682.8	\$ 999.2	\$ 366.7	\$ 134.3	\$ 62.5	\$ 63.5	\$ 817.1	\$1,061.7	\$ 430.2			

(b) Capital Investment

	2001			2000		
	Gross Expenditures	Proceeds on Disposal	Net	Gross Expenditures	Proceeds on Disposal	Net
Upstream						
North America						
Conventional	\$2,085.1	\$121.1	\$1,964.0	\$1,561.2	\$72.5	\$1,488.7
Syncrude	113.8	0.2	113.6	68.2	0.3	67.9
New Ventures	56.3	—	56.3	74.2	—	74.2
International						
Ecuador	458.6	—	458.6	351.8	—	351.8
New Ventures	140.4	24.2	116.2	49.5	16.4	33.1
Midstream						
Pipelines and Processing	267.4	18.2	249.2	62.7	2.6	60.1
Gas Storage	89.8	1.8	88.0	12.8	—	12.8
Other	38.5	—	38.5	16.3	—	16.3
Total*	\$3,249.9	\$165.5	\$3,084.4	\$2,196.7	\$91.8	\$2,104.9

* Excludes corporate acquisitions and corporate dispositions (see Notes 3 and 4).

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

18. SEGMENTED INFORMATION (continued)

(c) Geographic and Product Information

The following tables provide additional product and geographic information for Upstream North America and Midstream not provided in Note (a) Results of Operations:

Upstream North America

	Natural Gas and NGLs								
	Western Canada			United States			Purchased Gas – Canada		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Gross Revenues	\$2,306.1	\$2,073.3	\$933.5	\$488.3	\$224.8	–	\$1,158.4	\$1,154.5	\$738.2
Royalties	493.6	382.0	152.1	91.8	38.6	–	–	–	–
Production Taxes	–	–	–	39.5	15.7	–	–	–	–
Net Revenues	1,812.5	1,691.3	781.4	357.0	170.5	–	1,158.4	1,154.5	738.2
Transportation and Selling	109.1	54.9	59.7	20.4	6.8	–	84.0	75.2	49.9
Operating Costs	223.9	182.3	158.2	22.6	6.7	–	12.3	14.2	7.8
Cost of Product Purchased	–	–	–	–	–	–	1,076.5	1,053.2	681.1
Operating Cash Flow	<u>\$1,479.5</u>	<u>\$1,454.1</u>	<u>\$563.5</u>	<u>\$314.0</u>	<u>\$157.0</u>	<u>–</u>	<u>\$ (14.4)</u>	<u>\$ 11.9</u>	<u>\$ (0.6)</u>

	Crude Oil								
	Western Canada			United States			Syncrude – Canada		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Gross Revenues	\$ 382.6	\$ 476.2	\$271.8	\$ 0.3	\$ 0.4	–	\$ 483.6	\$ 460.2	\$322.1
Royalties	46.4	66.6	32.3	0.1	0.1	–	34.6	79.4	5.8
Net Revenues	336.2	409.6	239.5	0.2	0.3	–	449.0	380.8	316.3
Transportation and Selling	21.0	14.9	13.0	–	–	–	5.7	3.7	2.8
Operating Costs	82.4	70.0	53.6	0.2	0.1	–	221.1	182.0	137.0
Operating Cash Flow	<u>\$ 232.8</u>	<u>\$ 324.7</u>	<u>\$172.9</u>	<u>–</u>	<u>\$ 0.2</u>	<u>–</u>	<u>\$ 222.2</u>	<u>\$ 195.1</u>	<u>\$176.5</u>

Midstream – Pipelines and Processing

	Canada			United States		
	2001	2000	1999	2001	2000	1999
Gross Revenues	\$983.5	\$709.5	\$386.9	\$199.3	\$ 68.7	\$131.8
Operating Costs	88.5	76.4	58.6	79.4	40.4	28.4
Cost of Product Purchased	715.6	525.8	246.0	85.7	12.2	100.4
Operating Cash Flow	<u>\$179.4</u>	<u>\$107.3</u>	<u>\$ 82.3</u>	<u>\$ 34.2</u>	<u>\$ 16.1</u>	<u>\$ 3.0</u>

Midstream – Gas Storage

	Canada			United States		
	2001	2000	1999	2001	2000	1999
Gross Revenues	\$330.4	\$336.8	\$154.9	\$240.1	\$209.6	\$ 33.7
Operating Costs	21.6	18.1	16.2	21.1	11.9	9.6
Cost of Product Purchased	241.7	277.4	105.9	169.7	126.8	27.4
Operating Cash Flow	<u>\$ 67.1</u>	<u>\$ 41.3</u>	<u>\$ 32.8</u>	<u>\$ 49.3</u>	<u>\$ 70.9</u>	<u>\$ (3.3)</u>

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

18. SEGMENTED INFORMATION (continued)

(d) Total Assets

	<u>2001</u>	<u>2000</u>
Upstream		
North America		
Conventional	\$ 8,700.9	\$ 7,278.4
Syncrude	738.5	638.3
International	2,068.5	1,681.2
Midstream		
Pipelines and Processing	1,872.8	2,250.7
Gas Storage	716.8	533.0
	<u>\$14,097.5</u>	<u>\$12,381.6</u>

(e) Major Customers

All of the Company's crude oil produced in Ecuador is sold to a single marketing company. All payments are secured by letters of credit from a major financial institution.

19. SUBSEQUENT EVENTS

On January 27, 2002, the Company and PanCanadian Energy Corporation ("PanCanadian") announced that their respective Boards of Directors unanimously agreed to merge the two companies. Under terms of the agreement, the merger is to be accomplished through an arrangement under the Business Corporations Act of Alberta whereby each common shareholder of the Company will receive 1.472 Common Shares of PanCanadian for each Common Share of the Company that they own. The proposed merger is subject to the approval of both companies' shareholders, the Court of Queen's Bench of Alberta and appropriate regulatory and other authorities. The transaction is expected to close in early April 2002.

The Company's Board of Directors has also declared a dividend of \$0.45 per Common Share payable on March 28, 2002 to shareholders of record on March 7, 2002.

ALBERTA ENERGY COMPANY LTD.
2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which, in most respects, conform to accounting principles generally accepted in the United States ("U.S. GAAP"). Canadian GAAP differs from U.S. GAAP in the following respects:

RECONCILIATION OF NET EARNINGS UNDER CANADIAN GAAP TO U.S. GAAP

	Note	Year ended December 31,		
		2001	2000	1999
Net Earnings – Canadian GAAP		\$823.8	\$922.0	\$198.5
Impact of U.S. GAAP:				
Additional depletion	A	(829.6)	28.6	43.9
Depletion	B	(55.6)	(51.1)	(72.9)
Interest expense, net	C	(75.2)	(48.4)	(12.2)
Foreign exchange		(13.6)	(8.4)	–
Y2K costs		–	(0.2)	(4.0)
FAS 133 adjustment	D	19.0	–	–
Income taxes	B	337.2	36.3	58.3
Net Earnings – U.S. GAAP		<u>\$206.0</u>	<u>\$878.8</u>	<u>\$211.6</u>
Earnings per Common Share				
Basic		\$ 1.38	\$ 6.11	\$ 1.57
Diluted		\$ 1.38	\$ 5.89	\$ 1.57

CONSOLIDATED STATEMENT OF EARNINGS – U.S. GAAP

	Note	Year ended December 31,		
		2001	2000	1999
Revenues, net of royalties and production taxes		\$6,272.3	\$5,523.7	\$2,935.8
Expenses:				
Transportation and selling		300.8	224.0	141.3
Operating costs		917.5	702.0	533.9
Cost of product purchased		2,289.2	1,995.4	1,160.8
General and administrative		80.3	52.6	41.7
Interest, net	C	331.5	259.4	162.6
Foreign exchange		125.9	33.2	(19.9)
Provision for doubtful accounts		36.0	–	–
Depreciation, depletion and amortization	A,B	2,136.8	869.7	625.6
(Gain) on derivatives	D	(19.0)	–	–
Earnings before the Undernoted		73.3	1,387.4	289.8
Gain on sale of assets		238.1	–	34.6
Minority interest, AEC Pipelines, L.P.		–	12.7	18.4
Income taxes	B	105.4	495.9	94.4
Net Earnings – U.S. GAAP		<u>\$ 206.0</u>	<u>\$ 878.8</u>	<u>\$ 211.6</u>
Earnings per Common Share				
Basic		\$ 1.38	\$ 6.11	\$ 1.57
Diluted		\$ 1.38	\$ 5.89	\$ 1.57

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

STATEMENT OF COMPREHENSIVE INCOME (NOTE E)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net Earnings – U.S. GAAP	\$206.0	\$878.8	\$211.6
Adoption of FAS 133	36.2	–	–
Amortization of FAS 133 adjustment	9.2	–	–
Foreign currency translation adjustment	194.2	48.5	(21.6)
Comprehensive Income	<u>\$445.6</u>	<u>\$927.3</u>	<u>\$190.0</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – U.S. GAAP

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash From Operating Activities:			
Net earnings	\$ 206.0	\$ 878.8	\$ 211.6
Depreciation, depletion and amortization	2,136.8	869.7	625.6
Future income taxes	(274.9)	461.7	123.9
Minority interest, AEC Pipelines, L.P.	–	12.7	18.4
Gain on sale of assets	(238.1)	–	(34.6)
Cash tax on sale of assets	56.5	–	–
Other	94.2	(14.5)	14.1
Cash Flow From Operations	1,980.5	2,208.4	959.0
Net change in non-cash working capital	477.3	(333.5)	(258.6)
	<u>\$ 2,457.8</u>	<u>\$ 1,874.9</u>	<u>\$ 700.4</u>
Cash Used in Investing Activities	<u>\$(2,863.8)</u>	<u>\$(3,126.2)</u>	<u>\$(1,024.2)</u>
Cash From Financing Activities	<u>\$ 465.8</u>	<u>\$ 1,227.3</u>	<u>\$ 362.7</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at December 31,			
		2001		2000	
		As Reported	U.S. GAAP	As Reported	U.S. GAAP
Assets					
Current Assets		\$ 1,408.7	\$ 1,659.6	\$ 1,621.5	\$ 1,621.5
Financial Assets		–	49.2	–	–
Capital Assets	A,B	11,866.8	11,234.3	10,643.4	10,896.0
Investments and Other Assets		822.0	814.3	116.7	116.7
		<u>\$14,097.5</u>	<u>\$13,757.4</u>	<u>\$12,381.6</u>	<u>\$12,634.2</u>
Liabilities and Shareholders' Equity					
Current Liabilities		\$ 1,333.8	\$ 1,507.0	\$ 1,267.8	\$ 1,271.5
Financial Liabilities		–	35.7	–	–
Long-Term Debt	C	3,658.0	4,516.8	2,853.9	3,699.1
Project Financing Debt		584.1	584.1	573.1	573.1
Other Liabilities		204.5	204.5	172.9	172.9
Future Income Taxes	B	2,360.5	2,181.0	2,292.8	2,380.9
		8,140.9	9,029.1	7,160.5	8,097.5
Preferred Securities	C	858.8	–	845.2	–
Share Capital		3,052.3	3,052.3	3,077.4	3,077.4
Retained Earnings	A,B	1,788.1	1,373.2	1,235.3	1,396.1
Foreign Currency Translation Adjustment		257.4	–	63.2	–
Accumulated Other Comprehensive Income		–	302.8	–	63.2
		<u>5,956.6</u>	<u>4,728.3</u>	<u>5,221.1</u>	<u>4,536.7</u>
		<u>\$14,097.5</u>	<u>\$13,757.4</u>	<u>\$12,381.6</u>	<u>\$12,634.2</u>

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

(A.) Full Cost Accounting

Under Canadian GAAP, a ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proved reserves less the cost incurred or estimated to develop those reserves, related production, interest and general and administrative costs, and an estimate for restoration costs and applicable taxes.

Under the full cost method of accounting in the United States, a ceiling test is applied to ensure that the capitalized costs accumulated in each cost centre are limited to an amount equal to the present value, discounted at 10%, of the estimated unescalated future net operating revenues from proved reserves, net of restoration costs and income taxes.

In 1998, the Company recorded additional depletion of \$277.2 million that reduced the carrying amount of its conventional oil and gas capital assets and related tax savings of \$123.7 million as a result of applying the U.S. GAAP ceiling test rules. In 1999, the Company recorded additional depletion of \$22.1 million that reduced the carrying value of its conventional oil and gas capital assets and related income tax savings of \$3.8 million as a result of applying the U.S. GAAP ceiling test rules. In 2001, the Company recorded additional depletion of \$852.3 million that reduced the carrying value of its oil and natural gas capital assets and related income tax savings of \$299.7 million. This additional depletion was not recorded for Canadian GAAP purposes. As a result, depletion expense recorded on these assets under Canadian GAAP, and related tax amounts, has been reduced in the U.S. GAAP statement of earnings.

(B.) Income Taxes

Effective January 1, 2000, the Company adopted, retroactively without restating prior years, the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants (see Note 2). In prior years, the Company provided for potential future taxes using the deferred credit method under which tax provisions were established using tax rates and regulations applicable in the year the provision was recorded. Balances remained unchanged despite subsequent changes in rates and regulations.

The Canadian accounting standard is similar to the United States Statement of Financial Accounting Standards No. 109 ("FAS 109"), "Accounting for Income Taxes", which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, both the new Canadian standard and FAS 109 generally consider all expected events, including enacted changes in laws or rates.

In adopting the Canadian standard, the increase in pre-tax values assigned to assets and liabilities of acquired entities in the opening adjustment is different than the value determined using FAS 109. For business combinations that occurred in 2000, the impact on pre-tax values assigned to assets and liabilities of acquired entities is the same for both the Canadian standard and FAS 109. Deferred income taxes have also been increased by this amount. This amount is depleted on an annual basis.

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

The net deferred income tax liability is comprised of:

	<u>2001</u>	<u>2000</u>
Future Tax Liabilities:		
Capital assets in excess of tax values	\$2,252.4	\$2,459.0
Future Tax Assets:		
Accrued expenses and liabilities	4.3	10.3
Future removal and site restoration costs	51.1	40.2
Net operating losses carried forward	–	27.6
Other	16.0	–
	<u>71.4</u>	<u>78.1</u>
Net Future Income Tax Liability	<u>\$2,181.0</u>	<u>\$2,380.9</u>

Reconciliation of statutory rate to actual tax rate:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Using Canadian GAAP			
Earnings before income taxes	<u>\$1,266.4</u>	<u>\$1,454.2</u>	<u>\$351.2</u>
Income taxes at Canadian statutory rate	\$ 548.7	\$ 648.9	\$156.7
Effect on taxes resulting from:			
Non-deductible Canadian crown payments	226.6	190.1	75.6
Canadian Federal resource allowance	(231.4)	(238.7)	(98.9)
Royalties only deducted federally	3.5	12.3	0.9
Non-deductible depletion	–	–	42.8
Asset impairment with no tax benefit	22.4	5.0	–
Previously unrecognized losses	–	(86.6)	(27.8)
Alberta royalty tax credit	(0.5)	(0.6)	(1.4)
Large corporations tax	11.1	12.0	10.5
Statutory rate differences	(80.5)	(29.5)	(6.7)
Effect of rate reductions	(75.0)	–	–
Other	17.7	19.3	1.0
	<u>\$ 442.6</u>	<u>\$ 532.2</u>	<u>\$152.7</u>
U.S. GAAP adjustments to Earnings before income taxes	<u>\$ (955.0)</u>	<u>\$ (79.5)</u>	<u>\$ (45.2)</u>
Income taxes at Canadian statutory rate	\$ (413.8)	\$ (35.4)	\$ (20.2)
Depletion	–	–	(40.4)
Statutory rate differences	76.3	–	–
Other	0.3	(0.9)	2.3
	<u>\$ (337.2)</u>	<u>\$ (36.3)</u>	<u>\$ (58.3)</u>
Income taxes – U.S. GAAP	<u>\$ 105.4</u>	<u>\$ 495.9</u>	<u>\$ 94.4</u>
Effective tax rate	33.9%	36.0%	30.8%

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

(C.) Preferred Securities

Under Canadian GAAP, the Preferred Securities are considered to be equity as the principal amounts and deferred interest are payable in cash, or at the option of the Company, from the proceeds on the sale of equity securities of the Company delivered to the trustee of the Preferred Securities, or the issuance of Common Shares. Accordingly, the annual charges, net of applicable income taxes, are charged directly to retained earnings and included in cash from financing activities. Costs associated with the issue of the Preferred Securities are netted against the proceeds received.

Under U.S. GAAP, the Preferred Securities are considered to be long-term debt. Accordingly, the pre-tax charges are included in interest expense and the related income tax included in the provision for income taxes in the Consolidated Statement of Earnings and included in cash from operating activities. Costs associated with the issue of the Preferred Securities are included in other assets on the Consolidated Balance Sheet.

(D.) Accounting for Derivatives

Effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 133 ("FAS 133"), Accounting for Derivatives, as amended which requires that all derivative instruments be recorded in the balance sheet as assets and liabilities measured at fair value. The Statement requires that changes in the derivative instruments fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

On the initial adoption of FAS 133, the Company recorded additional assets and liabilities of \$1,320 million and \$1,255 million respectively. Also, an increase in Other Comprehensive Income within shareholders' equity of \$36 million, net of income tax, was recorded for the fair value of derivatives designated as a hedge against variability in future cash flows prior to January 1, 2001. Of the amount included in Other Comprehensive Income at January 1, 2001, a loss of \$9 million, net of tax, was reclassified to Net Earnings during 2001. In 2002, a gain of \$36.2 million, net of tax, will be reclassified to Net Earnings.

The Company enters into contracts for both future purchases and sales of natural gas. FAS 133 requires the Company to evaluate these contracts to determine whether the contracts meet the definition of derivative instruments and, further, whether such contracts are "normal purchases or normal sales". Certain of the Company's natural gas purchase and sale contracts do not meet FAS 133's definition of "normal purchases or normal sales" and therefore are required to be accounted for as derivative instruments. Under the Company's risk management process, the Company reduced the commodity price exposure associated with certain of its floating price sales with fixed price swaps. These risk management contracts, used to reduce commodity price risk, pertain to the contracts that do not meet FAS 133's definition of "normal purchases or normal sales".

The Company has entered into forward contracts to sell a limited amount of U.S. dollars to economically hedge the foreign exchange risk associated with specific commodity sales priced in U.S. dollars. The Company accounts for the changes in the fair value of the forward contracts with all changes in fair value reported in earnings.

During 2001, the Company did not designate any derivative financial instruments as hedges. At December 31, 2001, the Company recorded financial assets and liabilities for U.S. GAAP purposes of \$300.5 million and \$199.7 million respectively representing derivative instruments recognized at fair

ALBERTA ENERGY COMPANY LTD.

2001 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(tabular amounts in Canadian \$ million, unless otherwise indicated)

20. UNITED STATES ACCOUNTING PRINCIPLES AND REPORTING (continued)

value under FAS 133. The resulting change in fair value of derivative financial instruments during the year, a gain of \$10.5 million, net of tax, was charged to net earnings.

(E.) Other Comprehensive Income

U.S. GAAP standards for reporting comprehensive income are set forth in Statement of Financial Accounting Standards (FAS) No. 130. Comprehensive income represents the change in equity during a reporting period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include such items as net earnings (loss), changes in fair value of investments not held for trading, minimum pension liability adjustments and certain foreign currency translation gains and losses.

(F.) Recent Accounting Pronouncements

CICA Accounting Guideline AcG 13 – Hedging Relationships

On November 2, 2001, the Canadian Institute of Chartered Accountants issued AcG 13, which establishes certain conditions for when hedge accounting may be applied, but does not provide any guidance on how hedge accounting is applied nor does it deal with hedge accounting techniques. AcG 13 is effective for fiscal years beginning on or after June 1, 2002. The Company has not yet completely evaluated the effect that AcG 13 will have on financial reporting.

Statement of Financial Accounting Standards No 143 (“FAS 143”) – Accounting for Asset Retirement Obligations

FAS 143, Accounting for Asset Retirement Obligations, is effective for financial statements issued for fiscal years beginning after June 15, 2002. FAS 143 applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The Company has not yet evaluated the effect that FAS No. 143 will have on financial reporting.

Statement of Financial Accounting Standards No 144 (“FAS 144”) – Accounting for the Impairment or Disposal of Long-Lived Assets

FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. FAS 144 supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. However, FAS 144 retains the fundamental provisions of FAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. FAS 144 supercedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of. However, FAS 144 retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. The Company anticipates that the adoption of FAS 144 will not have a material effect on its financial position or results of its operations.

ALBERTA ENERGY COMPANY LTD.

SUPPLEMENTARY OIL AND GAS INFORMATION (unaudited)

The following unaudited supplementary oil and gas information is provided in accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities".

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

The following disclosures on standardized measures of discounted cash flows and changes therein relating to proved oil and gas reserves are determined in accordance with United States Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities".

In calculating the standardized measure of discounted future net cash flows, year-end constant prices and cost assumptions were applied to the Company's annual future production from proved reserves to determine cash inflows. Future development costs are based on constant price assumptions and assume the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by application of a 10% discount factor to the future net cash flows.

The Company cautions that the discounted future net cash flows from proved oil and gas reserves are an indication of neither the fair market value of the Company's oil and gas properties, nor of the future net cash flows expected to be generated from such properties. The discounted future net cash flows do not include the fair market value of exploratory properties and probable or possible oil and gas reserves, nor is consideration given to the effect of anticipated future changes in crude oil and natural gas prices, development, site restoration and production costs, and possible changes to tax and royalty regulations. The prescribed discount rate of 10% may not appropriately reflect future interest rates. The computation also excludes values attributable to the Company's Syncrude, marketing, storage, and pipeline interests.

The following standardized measure of discounted net cash flows is based on the following prices:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
North America Conventional Operations – Canada			
Natural gas (\$/Mcf)	3.39	10.32	2.70
Crude oil (\$/bbl)	12.98	17.47	29.15
Natural gas liquids (\$/bbl)	20.63	44.61	29.95
North America Conventional Operations – United States			
Natural gas (US\$/Mcf)	2.29	5.99	–
Natural gas liquids (US\$/bbl)	18.97	28.85	–
Ecuador Operations			
Crude oil (US\$/bbl)	13.74	15.32	20.00
Argentina Operations			
Natural gas (US\$/Mcf)	–	1.25	1.12
Crude oil (US\$/bbl)	–	24.84	24.12

ALBERTA ENERGY COMPANY LTD.
SUPPLEMENTARY OIL AND GAS INFORMATION (unaudited)
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES (EXCLUDING SYNCRUDE)

Net Proved Reserves (Company share after royalties)

	Natural Gas				Crude Oil and Natural Gas Liquids						
	(billions of cubic feet)				(millions of barrels)						
	Canada	USA	Argentina	Total	Canada			USA	Argentina	Ecuador	Total
					Oil	NGLs	Total	NGLs	Oil	Oil	Oil & NGLs
2001											
Beginning of year	2,450	622	42	3,114	176.5	11.8	188.3	5.0	0.1	171.7	365.1
Revisions and improved recovery . . .	(22)	85	–	63	13.9	(0.6)	13.3	0.7	–	(17.1)	(3.1)
Extensions and discoveries	556	167	–	723	47.3	1.1	48.4	1.1	–	27.5	77.0
Purchase of reserves in place	110	134	–	244	0.1	–	0.1	0.4	–	–	0.5
Sale of reserves in place	(94)	–	(41)	(135)	(0.6)	(0.1)	(0.7)	–	(0.1)	–	(0.8)
Sales	(314)	(64)	(1)	(379)	(14.4)	(1.3)	(15.7)	(0.7)	–	(13.7)	(30.1)
End of year	<u>2,686</u>	<u>944</u>	<u>–</u>	<u>3,630</u>	<u>222.8</u>	<u>10.9</u>	<u>233.7</u>	<u>6.5</u>	<u>–</u>	<u>168.4</u>	<u>408.6</u>
Developed	2,141	580	–	2,721	116.3	8.0	124.3	4.1	–	51.6	180.0
Undeveloped	545	364	–	909	106.5	2.9	109.4	2.4	–	116.8	228.6
Total	<u>2,686</u>	<u>944</u>	<u>–</u>	<u>3,630</u>	<u>222.8</u>	<u>10.9</u>	<u>233.7</u>	<u>6.5</u>	<u>–</u>	<u>168.4</u>	<u>408.6</u>
2000											
Beginning of year	2,267	–	34	2,301	140.0	11.6	151.6	–	1.5	150.0	303.1
Revisions and improved recovery . . .	(45)	–	2	(43)	(6.1)	0.3	(5.8)	–	–	14.6	8.8
Extensions and discoveries	355	71	6	432	56.8	1.0	57.8	0.6	–	3.8	62.2
Purchase of reserves in place	195	576	–	771	0.1	0.1	0.2	4.6	–	14.8	19.6
Sale of reserves in place	(28)	–	–	(28)	(1.6)	–	(1.6)	–	(1.2)	–	(2.8)
Sales	(294)	(25)	–	(319)	(12.7)	(1.2)	(13.9)	(0.2)	(0.2)	(11.5)	(25.8)
End of year	<u>2,450</u>	<u>622</u>	<u>42</u>	<u>3,114</u>	<u>176.5</u>	<u>11.8</u>	<u>188.3</u>	<u>5.0</u>	<u>0.1</u>	<u>171.7</u>	<u>365.1</u>
Developed	1,875	303	20	2,198	69.7	7.9	77.6	2.4	0.1	40.4	120.5
Undeveloped	575	319	22	916	106.8	3.9	110.7	2.6	–	131.3	244.6
Total	<u>2,450</u>	<u>622</u>	<u>42</u>	<u>3,114</u>	<u>176.5</u>	<u>11.8</u>	<u>188.3</u>	<u>5.0</u>	<u>0.1</u>	<u>171.7</u>	<u>365.1</u>
1999											
Beginning of year	2,317	–	1	2,318	129.4	12.5	141.9	–	2.8	–	144.7
Revisions and improved recovery . . .	(49)	–	(1)	(50)	3.7	0.2	3.9	–	(1.0)	0.8	3.7
Extensions and discoveries	218	–	34	252	18.1	0.4	18.5	–	0.3	26.3	45.1
Purchase of reserves in place	54	–	–	54	–	–	–	–	–	129.7	129.7
Sale of reserves in place	–	–	–	–	(0.8)	(0.1)	(0.9)	–	–	–	(0.9)
Sales	(273)	–	–	(273)	(10.4)	(1.4)	(11.8)	–	(0.6)	(6.8)	(19.2)
End of year	<u>2,267</u>	<u>–</u>	<u>34</u>	<u>2,301</u>	<u>140.0</u>	<u>11.6</u>	<u>151.6</u>	<u>–</u>	<u>1.5</u>	<u>150.0</u>	<u>303.1</u>
Developed	1,773	–	19	1,792	59.1	7.4	66.5	–	1.5	73.3	141.3
Undeveloped	494	–	15	509	80.9	4.2	85.1	–	–	76.7	161.8
Total	<u>2,267</u>	<u>–</u>	<u>34</u>	<u>2,301</u>	<u>140.0</u>	<u>11.6</u>	<u>151.6</u>	<u>–</u>	<u>1.5</u>	<u>150.0</u>	<u>303.1</u>

ALBERTA ENERGY COMPANY LTD.
SUPPLEMENTARY OIL AND GAS INFORMATION (unaudited)
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES (EXCLUDING SYNCRUDE)
Year ended December 31

	Canada			United States			Argentina			Ecuador			Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
	(Canadian \$ million)														
Results of Operations															
Oil and gas revenues, net of royalties, production taxes, transportation and selling	2,010.0	1,988.7	930.3	336.8	179.7	–	1.8	7.0	14.2	343.4	316.6	123.0	2,692.0	2,492.0	1,067.5
Operating costs	297.7	209.9	194.0	22.8	22.5	–	7.5	11.4	13.8	94.3	65.7	33.2	422.3	309.5	241.0
Depreciation, depletion and amortization	721.2	576.3	459.2	141.8	59.3	–	51.6	7.4	9.3	163.9	115.0	57.9	1,078.5	758.0	526.4
Operating income (loss) . . .	991.1	1,202.5	277.1	172.2	97.9	–	(57.3)	(11.8)	(8.9)	85.2	135.9	31.9	1,191.2	1,424.5	300.1
Income taxes	402.6	507.1	188.9	66.1	32.1	–	(20.1)	(1.2)	(0.7)	27.9	(29.1)	11.6	476.5	508.9	199.8
Results of operations	588.5	695.4	88.2	106.1	65.8	–	(37.2)	(10.6)	(8.2)	57.3	165.0	20.3	714.7	915.6	100.3
Capitalized Costs															
Proved oil and gas properties	8,534.7	7,842.9	5,852.2	1,713.0	1,125.8	–	160.1	149.7	151.0	1,824.8	1,527.4	1,180.9	12,232.6	10,645.8	7,184.1
Unproved oil and gas properties	1,343.6	425.2	649.2	404.1	127.5	–	–	25.4	14.5	322.9	98.1	11.1	2,070.6	676.2	674.8
Total capital cost	9,878.3	8,268.1	6,501.4	2,117.1	1,253.3	–	160.1	175.1	165.5	2,147.7	1,625.5	1,192.0	14,303.2	11,322.0	7,858.9
Accumulated DD&A	3,696.5	3,003.8	2,508.2	324.4	147.1	–	159.1	101.4	89.1	406.9	229.5	57.8	4,586.9	3,481.8	2,655.1
Net capitalized costs	6,181.8	5,264.3	3,993.2	1,792.7	1,106.2	–	1.0	73.7	76.4	1,740.8	1,396.0	1,134.2	9,716.3	7,840.2	5,203.8
Costs Incurred															
Acquisitions – proved reserves	168.7	298.9	50.7	239.7	766.2	–	–	–	–	–	48.8	1,021.5	408.4	1,113.9	1,072.2
– unproved reserves	24.0	97.3	–	180.2	127.5	–	–	–	–	122.7	87.2	–	326.9	312.0	–
Total acquisitions	192.7	396.2	50.7	419.9	893.7	–	–	–	–	122.7	136.0	1,021.5	735.3	1,425.9	1,072.2
Exploration costs	367.7	332.2	218.7	142.5	21.2	–	1.7	13.4	24.6	39.4	74.7	20.9	551.3	441.5	264.2
Development	1,167.6	885.2	433.3	195.8	43.2	–	0.6	3.6	16.8	296.5	141.1	73.8	1,660.5	1,073.1	523.9
Total costs incurred	1,728.0	1,613.6	702.7	758.2	958.1	–	2.3	17.0	41.4	458.6	351.8	1,116.2	2,947.1	2,940.5	1,860.3

ALBERTA ENERGY COMPANY LTD.
SUPPLEMENTARY OIL AND GAS INFORMATION (unaudited)
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES (EXCLUDING SYNCRUDE)
Year ended December 31

	Canada			United States			Argentina			Ecuador			Total		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
	(Canadian \$ million)														
Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves															
Future cash flows	12,615.0	29,040.0	10,942.0	3,247.0	5,893.9	—	—	96.3	121.5	3,687.3	3,945.8	4,366.3	19,549.3	38,976.0	15,429.8
Future production and development costs	5,395.2	4,952.8	3,392.0	717.1	1,128.2	—	—	46.2	57.0	1,732.7	1,245.0	782.3	7,845.0	7,372.2	4,231.3
Undiscounted pre-tax cash flows	7,219.8	24,087.2	7,550.0	2,529.9	4,765.7	—	—	50.1	64.5	1,954.6	2,700.8	3,584.0	11,704.3	31,603.8	11,198.5
Future income taxes	1,771.4	9,589.7	2,225.6	483.6	1,492.5	—	—	—	—	293.5	667.7	1,104.7	2,548.5	11,749.9	3,330.3
Future net cash flows	5,448.4	14,497.5	5,324.4	2,046.3	3,273.2	—	—	50.1	64.5	1,661.1	2,033.1	2,479.3	9,155.8	19,853.9	7,868.2
Less discount of net cash flows using a 10% rate . .	2,136.2	5,953.0	2,142.4	1,158.0	1,884.3	—	—	21.4	16.6	638.7	892.3	965.3	3,932.9	8,751.0	3,124.3
Discounted future net cash flows	3,312.2	8,544.5	3,182.0	888.3	1,388.9	—	—	28.7	47.9	1,022.4	1,140.8	1,514.0	5,222.9	11,102.9	4,743.9
Changes in Standardized Measure of Future Net Cash Flows Relating to Proved Oil and Gas Reserves															
Balance, beginning of year	8,544.5	3,182.0	2,288.9	1,388.9	—	—	28.7	47.9	16.9	1,140.8	1,514.0	—	11,102.9	4,743.9	2,305.8
Changes resulting from:															
Sales of oil and gas produced during the period	(1,712.3)	(1,778.8)	(736.4)	(314.0)	(157.2)	—	5.7	4.4	(0.4)	(249.1)	(250.9)	(89.8)	(2,269.7)	(2,182.5)	(826.6)
Discoveries and extensions net of related costs	680.2	2,241.5	345.1	201.7	231.5	—	—	7.7	25.1	239.7	58.9	359.7	1,121.6	2,539.6	729.9
Purchases of proved reserves in place	124.1	786.9	10.4	109.5	1,949.9	—	—	—	—	—	295.7	1,235.5	233.6	3,032.5	1,245.9
Sales of proved reserves in place	(110.0)	(150.9)	—	—	—	—	(34.4)	(46.2)	—	—	—	—	(144.4)	(197.1)	—
Net change in prices and production costs	(10,425.4)	8,630.5	1,365.4	(1,241.2)	—	—	—	6.9	17.1	(435.5)	(1,304.4)	610.1	(12,102.1)	7,333.0	1,992.6
Revisions to quantity estimates	64.4	(339.9)	(14.0)	76.6	—	—	—	2.7	(7.2)	(107.2)	229.8	10.9	33.8	(107.3)	(10.3)
Accretion of discount	1,436.5	451.2	316.8	202.4	—	—	—	4.8	1.7	157.2	218.9	61.8	1,796.1	674.8	380.3
Other	135.1	(156.1)	56.4	41.0	(2.0)	—	—	0.5	(5.3)	82.5	78.9	0.4	258.6	(78.6)	51.5
Net change in income taxes	4,575.1	(4,321.9)	(450.6)	423.4	(633.3)	—	—	—	—	194.0	299.9	(674.6)	5,192.5	(4,655.4)	(1,125.2)
Balance, end of year	3,312.2	8,544.5	3,182.0	888.3	1,388.9	—	—	28.7	47.9	1,022.4	1,140.8	1,514.0	5,222.9	11,102.9	4,743.9

Note: Results of Operations, Net capitalized costs and Costs Incurred exclude the Company's joint venture interest in the Syncrude oil sands project.

At December 31, 2001, if Syncrude were included, Net capitalized costs would be \$10,374.3 million and Discounted Future net Cash Flows would be \$5,704.7 million.

**MAJOR OPERATING SUBSIDIARIES, PARTNERSHIPS,
JOINT VENTURES AND AFFILIATES**

Upstream – North America

AEC Marketing (USA) Inc.	100%
AEC Oil & Gas Partnership	100%
AEC Oil & Gas (USA) Inc.	100%
AEC Oil Sands GP Ltd.	100%
AEC Oil Sands, L.P.	100%
AEC West Ltd.	100%
Fort Collins Consolidated Royalties, Inc.	100%
McMurry Oil Company	100%

Upstream – International

AEC Colombia Ltd.	100%
AEC Ecuador Ltd.	100%
AEC Exploration & Production (Azerbaijan) Ltd.	100%
AEC Gulf of Mexico Inc.	100%
AEC International (Australia) Pty Ltd	100%
AEC International (USA) Inc.	100%
Alberta Energy International (Barbados) Ltd.	100%
Alberta Energy International Ltd.	100%
City Oriente Limited	100%

Midstream

AEC Gathering Services (USA) Inc.	100%
AEC Pipelines Ltd.	100%
AEC Pipelines (Cold Lake) Ltd.	100%
AEC Pipelines (USA) Inc.	100%
AEC Storage and Hub Services Inc.	100%
AEC Suffield Gas Pipeline Inc.	100%
Alenco Pipelines Inc.	100%
Express Pipeline LLC	100%
Express Pipeline Ltd.	100%
Marquest Energy Inc.	100%
Marquest Energy Ltd.	100%
Platte Pipe Line Company	100%
Salt Plains Storage Inc.	100%
Wild Goose Storage Inc.	100%

Major Joint Ventures & Equity Investments

Upstream

Syncrude (AEC Oil Sands, L.P.)	13.75%
(includes 75% of AEC Oil Sands Limited Partnership's 5% interest)	

Midstream

Alberta Ethane Gathering System	33.3%
Cold Lake Pipeline Limited Partnership	70.0%
Empress Straddle Plant	35.0%
Oleoducto de Crudos Pesados (OCP) Ltd.	31.4%
Oleoducto Trasandino (Argentina) S.A.	36.0%
Oleoducto Trasandino (Chile) S.A.	36.0%

Alberta Energy Company Ltd.

SUPPLEMENTAL INFORMATION

(UNAUDITED)

For the Year Ended December 31, 2001

ALBERTA ENERGY COMPANY LTD.

SUPPLEMENTAL INFORMATION

Year ended December 31

(Unaudited)

	2001					2000	1999	1998	1997
	Year	Q4	Q3	Q2	Q1				
(Canadian \$ million, except per share amounts)									
FINANCIAL STATISTICS									
Net Earnings	823.8	79.8	144.2	267.2	332.6	922.0	198.5	14.7	195.0 ⁽¹⁾
Per share – Basic	5.24	0.47	0.90	1.70	2.15	6.19	1.42	0.13	1.74
– Diluted	4.98	0.46	0.87	1.62	2.03	5.97	1.39	0.13	1.71
Cash Flow From Operations	2,022.6	219.3	436.1	557.9	809.3	2,235.4	946.9	488.5	544.7
Per share – Basic	13.55	1.48	2.96	3.70	5.38	15.53	7.02	4.26	4.87
– Diluted	12.57	1.38	2.66	3.32	5.13	14.89	6.86	4.17	4.79
Common Shares Outstanding (million)	147.9	147.9	147.8	149.8	150.6	149.9	140.8	124.0	112.1
Average	149.3	147.9	148.2	151.0	150.3	143.9	134.8	114.8	111.9
Average Diluted	160.9	150.7	159.8	162.0	161.0	150.2	138.0	117.2	113.7
OPERATING MEASURES and RATIOS									
BOE Sales per Average Common Share	0.87					0.75	0.67	0.57	0.50
BOE Established Reserves per Common Share ⁽²⁾	14.0					12.2	11.0	9.6	9.0
Debt-to-Capitalization									
Consolidated	41:59					37:63	34:66	41:59	29:71
Upstream	37:63					30:70	29:71	36:64	20:80
Midstream	60:40					60:40	60:40	60:40	60:40
Debt-to-Cash Flow – Upstream	1.7x					0.9x	1.7x	3.0x	1.0x
Debt-to-EBITDA – Upstream	1.7x					1.2x	2.0x	3.6x	1.8x
EBITDA-to-Interest – Consolidated	7.4x					10.7x	8.2x	6.0x	10.9x
Return on Capital Employed	11.2%					14.9%	5.3%	1.8%	7.3%
Return on Common Equity	16.5%					26.5%	6.4%	0.6%	9.2%
Cash Flow Return on Capital Employed	23.8%					34.6%	21.4%	15.2%	19.3%
Dividend (Canadian \$ per Common Share)	0.60					0.40	0.40	0.40	0.40

(1) 1997 net earnings includes dilution gain on the sale of AEC Pipelines, L.P. of \$178.0 million (\$1.59 per share – basic; \$1.56 per share – diluted).

(2) Established Reserves include Syncrude Proved Reserves.

ALBERTA ENERGY COMPANY LTD.

SUPPLEMENTAL INFORMATION

Year ended December 31

(Unaudited)

	2001								
	Year	Q4	Q3	Q2	Q1	2000	1999	1998	1997
	(Canadian \$ million)								
NET CAPITAL INVESTMENT									
Upstream									
North America									
Conventional	\$1,769.0					\$1,202.4	\$ 654.0	\$ 607.5	\$ 667.8
Syncrude	113.8					68.2	103.5	68.3	48.8
New Ventures	56.3					74.2	2.1	0.4	–
Dispositions	(121.3)					(72.8)	(40.5)	(25.3)	(92.2)
International									
Ecuador	335.9					215.8	94.7	–	–
New Ventures	140.4					49.5	80.0	64.7	48.3
Dispositions	(24.2)					(16.4)	(0.9)	–	–
Midstream									
Pipelines and Gas Processing	267.4					62.7	97.9	72.4	157.1
Gas Storage	19.9					12.8	45.6	43.2	40.2
Dispositions	(172.2)					(2.6)	(66.3)	–	–
Other, net	38.5					16.3	0.5	7.2	11.1
Net Core Capital	\$2,423.5					\$1,610.1	\$ 970.6	\$ 838.4	\$ 881.1
Upstream									
Corporate Acquisitions	296.5					931.1	1,021.5	813.5	–
Property Acquisitions – North America	316.1					358.8	50.7	19.6	11.9
Property Acquisitions – International	122.7					136.0	–	–	–
Midstream									
Corporate Acquisitions/(dispositions)	(655.2)					884.7	–	–	–
Property Acquisitions – Storage	69.9					–	–	–	–
Total Net Capital Investment	\$2,573.5					\$3,920.7	\$2,042.8	\$1,671.5	\$ 893.0
SALES VOLUMES									
Produced Gas (MMcf/day)									
Canada	1,106	1,173	1,176	1,029	1,043	989	904	714	575
United States	217	259	219	212	178	82			
Total	1,323	1,432	1,395	1,241	1,221	1,071	904	714	575
Oil and Natural Gas Liquids (bbls/day)									
North America									
Conventional light and medium oil	4,802	4,543	4,680	4,914	5,077	7,358	9,423	10,620	10,783
Conventional heavy oil	40,909	40,796	43,752	41,248	37,779	33,612	23,284	12,407	13,171
Natural gas liquids – Canada	4,998	5,529	4,762	4,887	4,805	4,771	5,135	5,877	4,856
Natural gas liquids – United States	2,291	2,855	2,536	2,201	1,556	723			
Total North America conventional	53,000	53,723	55,730	53,250	49,217	46,464	37,842	28,904	28,810
Syncrude	30,687	32,347	28,938	29,162	32,319	27,897	30,649	28,953	28,447
Total North America	83,687	86,070	84,668	82,412	81,536	74,361	68,491	57,857	57,257
International	51,899	51,055	51,472	53,498	51,582	43,883	27,347	2,217	1,683
Total	135,586	137,125	136,140	135,910	133,118	118,244	95,838	60,074	58,940

ALBERTA ENERGY COMPANY LTD.

SUPPLEMENTAL INFORMATION

Year ended December 31

(Unaudited)

PER-UNIT RESULTS	2001					2000	1999	1998	1997
	Year	Q4	Q3	Q2	Q1				
Produced Gas – Canada (\$/Mcf)									
Price, net of transportation and selling	5.25	2.98	3.26	6.02	9.37	5.32	2.48	2.04	2.04
Royalties	1.18	0.60	0.73	1.44	2.11	1.00	0.43	0.29	0.31
Operating costs	0.51	0.54	0.51	0.51	0.47	0.43	0.43	0.42	0.40
Netback	<u>3.56</u>	<u>1.84</u>	<u>2.02</u>	<u>4.07</u>	<u>6.79</u>	<u>3.89</u>	<u>1.62</u>	<u>1.33</u>	<u>1.33</u>
Produced Gas – United States (\$/Mcf)									
Price, net of transportation and selling	5.51	3.48	3.93	6.72	9.04	6.83			
Royalties	1.04	0.64	0.77	1.31	1.67	1.19			
Production taxes	0.50	0.32	0.35	0.60	0.82	0.53			
Operating costs	0.29	0.29	0.23	0.27	0.35	0.19			
Netback including hedge	3.68	2.23	2.58	4.54	6.20	4.92			
Hedge ⁽¹⁾	0.21	–	–	–	0.73	1.87			
Netback excluding hedge	<u>3.47</u>	<u>2.23</u>	<u>2.58</u>	<u>4.54</u>	<u>5.47</u>	<u>3.05</u>			
Conventional Light and Medium Oil (\$/bbl)									
Price, net of transportation and selling	36.21	33.28	36.21	37.40	37.69	41.48	24.94	17.49	25.59
Royalties	6.23	4.52	7.09	6.66	6.52	7.53	4.07	2.73	4.81
Operating costs	6.21	6.46	6.36	5.82	6.17	6.16	5.49	5.26	5.99
Netback including hedge	23.77	22.30	22.76	24.92	25.00	27.79	15.38	9.50	14.79
Hedge ⁽²⁾	2.51	10.04	–	–	–	–	–	–	–
Netback excluding hedge	<u>21.26</u>	<u>12.26</u>	<u>22.76</u>	<u>24.92</u>	<u>25.00</u>	<u>27.79</u>	<u>15.38</u>	<u>9.50</u>	<u>14.79</u>
Conventional Heavy Oil (\$/bbl)									
Price, net of transportation and selling	20.62	22.70	24.71	18.23	16.20	28.45	20.30	9.40	15.41
Royalties	2.40	2.01	3.14	2.06	2.33	3.78	2.15	1.05	2.57
Operating costs	4.78	4.52	4.90	4.93	4.76	4.35	4.03	4.54	5.54
Netback including hedge	13.44	16.17	16.67	11.24	9.11	20.32	14.12	3.81	7.30
Hedge ⁽²⁾	2.51	10.04	–	–	–	–	–	–	–
Netback excluding hedge	<u>10.93</u>	<u>6.13</u>	<u>16.67</u>	<u>11.24</u>	<u>9.11</u>	<u>20.32</u>	<u>14.12</u>	<u>3.81</u>	<u>7.30</u>
Total Conventional Oil (\$/bbl)									
Price, net of transportation and selling	22.23	23.60	25.83	20.26	18.75	30.79	21.64	13.13	19.99
Royalties	2.79	2.21	3.52	2.55	2.83	4.45	2.70	1.82	3.58
Operating costs	4.95	4.79	5.04	5.02	4.93	4.68	4.45	4.82	5.70
Netback including hedge	14.49	16.60	17.27	12.69	10.99	21.66	14.49	6.49	10.71
Hedge ⁽²⁾	2.51	10.04	–	–	–	–	–	–	–
Netback excluding hedge	<u>11.98</u>	<u>6.56</u>	<u>17.27</u>	<u>12.69</u>	<u>10.99</u>	<u>21.66</u>	<u>14.49</u>	<u>6.49</u>	<u>10.71</u>
Natural Gas Liquids (\$/bbl)									
Price, net of transportation and selling	34.92	24.41	34.97	40.30	42.96	39.03	20.47	16.86	23.97
Royalties	10.24	7.29	9.62	12.02	12.92	10.69	5.58	4.52	6.11
Netback	24.68	17.12	25.35	28.28	30.04	28.34	14.89	12.34	17.86

(1) Relates to contract volume of approximately 121 MMcf/d from June 1, 2000 to October 31, 2000 and 66 MMcf/d from November 1, 2000 to March 31, 2001.

(2) Relates to share of contract volume of 100,000 bbls/d for September to December 2001.

ALBERTA ENERGY COMPANY LTD.

SUPPLEMENTAL INFORMATION

Year ended December 31

(Unaudited)

PER-UNIT RESULTS	2001					2000	1999	1998	1997
	Year	Q4	Q3	Q2	Q1				
Syncrude (\$/bbl)									
Price, net of transportation and selling	42.02	41.83	40.74	42.27	43.17	44.47	27.96	20.46	27.80
Gross overriding royalty and other revenue	0.64	0.13	0.19	2.15	0.18	0.23	0.58	0.51	0.69
Royalties	3.08	(0.60)	4.95	4.41	3.94	7.78	0.52	(0.03)	2.70
Cash operating costs	19.74	16.54	20.75	21.54	20.48	17.67	12.69	13.67	13.82
Netback including hedge	19.84	26.02	15.23	18.47	18.93	19.25	15.33	7.33	11.97
Hedge ⁽²⁾	2.67	10.05	—	—	—	—	—	—	—
Netback excluding hedge	17.17	15.97	15.23	18.47	18.93	19.25	15.33	7.33	11.97
Ecuador Oil (\$/bbl)									
Price, net of transportation and selling	26.24	23.62	28.43	28.12	24.71	33.17	20.79		
Royalties	8.10	5.85	9.76	8.72	8.05	13.22	7.64		
Operating costs	4.98	4.70	5.04	5.63	4.53	4.14	3.55		
Netback including hedge	13.16	13.07	13.63	13.77	12.13	15.81	9.60		
Hedge ⁽²⁾	1.09	4.40	—	—	—		(4.29)		
Netback excluding hedge	12.07	8.67	13.63	13.77	12.13	15.81	13.89		

(2) Relates to share of contract volume of 100,000 bbls/d for September to December 2001. Ecuador amounts in 1999 represent the cost associated with hedges acquired with the acquisition of Pacalta Resources Ltd.

**ADDITIONAL INFORMATION CONCERNING
ALBERTA ENERGY COMPANY LTD.**

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Statement of Executive Compensation

Composition of the Human Resources and Compensation Committee

The following served as members of the Human Resources and Compensation Committee (the "Committee") of the AEC Board during the year ending December 31, 2001: I.W. Delaney, R.F. Haskayne, O.C., J.C. Lamacraft, and V.A.A. Nielsen. Board Chairman, S.A. Milner, A.O.E., LL.D., is an ex-officio member of the Committee.

Human Resources and Compensation Committee Report

The Committee has the responsibility for reviewing AEC's compensation policies. The Committee makes recommendations to the AEC Board as to the remuneration of the President. The President's salary is determined based on comparison with other oil and gas companies having comparable expenditures, production and revenues taking into account performance, experience and tenure. The President received a results-based compensation award which, among other things, considered the overall performance of AEC, production and reserves growth, cost performance, successful acquisitions and the successful implementation of AEC's strategic growth plan.

The Committee approves and reports to the AEC Board the compensation for AEC's other officers. The Committee has been delegated the authority to authorize stock options, subject to the AEC Option Plan approved by the AEC Board and AEC Shareholders. Compensation plans for the entire corporation are reviewed annually by the Committee.

The Committee receives data and analyses of competitive conditions from AEC's human resources staff and competitive information from outside independent advisors. AEC's compensation program has the following components:

- Base salary
- Annual results based compensation awards
- Share options

Base salaries are determined based on competitive levels for oil and gas companies having comparable expenditures, production and revenues, experience in the position and performance as evaluated annually.

Annual results based compensation awards are dependent on corporate, team and individual performance for the year. The portion of the award based on individual and team performance is paid as cash while the portion of the award based on corporate performance is made in the form of AEC Shares paid into the savings plan for employees of AEC.

Share option grants are dependent on the number of options previously granted, competitive conditions determined as outlined above and individual performance. The AEC Option Plan requires that the option price be not less than the market price at the time the option was granted. Each option vests over four years and expires five years after the date of the grant.

Submitted on behalf of the Human Resources and Compensation Committee:

- V.A.A. Nielsen, Chair
- I.W. Delaney
- R.F. Haskayne, O.C.
- J.C. Lamacraft

Summary Compensation Table

Name and Principal Positions	Year	Annual Compensation		Long-Term Compensation		All Other Compensation
		Salary	Bonus	Awards	Payouts	
				Securities Under Options Granted	LTIP Payouts	
Gwyn Morgan President and Chief Executive Officer, AEC	2001	\$950,000	\$2,500,000	155,000	–	\$47,500
	2000	\$762,500	\$1,500,000	105,000	–	\$38,125
	1999	\$637,500	\$ 800,000	70,000	–	\$31,875
Randall K. Eresman Vice-President, AEC President, AEC Oil & Gas	2001	\$475,000	\$ 771,023	100,000	–	\$23,750
	2000	\$387,500	\$ 682,900	62,000	\$ 9,392	\$19,375
	1999	\$298,333	\$ 393,714	30,000	–	\$14,917
John D. Watson Vice-President, Finance and Chief Financial Officer, AEC	2001	\$380,000	\$ 616,818	35,000	–	\$19,000
	2000	\$305,000	\$ 397,100	50,000	\$52,152	\$15,250
	1999	\$260,000	\$ 201,284	20,000	\$41,514	\$13,000
Drude Rimell Vice-President, Corporate Services, AEC	2001	\$305,000	\$ 477,983	20,000	–	\$15,250
	2000	\$260,000	\$ 350,100	50,000	–	\$13,000
	1999	\$215,000	\$ 183,491	20,000	\$30,147	\$10,750
Hector J. McFadyen Vice-President, AEC President, AEC Midstream	2001	\$305,000	\$ 474,103	20,000	–	\$15,250
	2000	\$271,250	\$ 405,600	50,000	–	\$13,563
	1999	\$260,000	\$ 88,966	20,000	–	\$13,000

“LTIP Payouts” refer to Incentive Compensation Units which were previously awarded but have been replaced with results based compensation awards.

“All Other Compensation” represents AEC’s matching contributions to AEC’s savings plan excluding the results based compensation awards which are reported as bonus.

Option/SAR Grants during the most recently completed financial year

Name and Principal Positions	Common Shares Under Options Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise Price (\$/Common Share)	Market Value of Common Shares on the Date of Grant (\$/Common Share)	Expiration Date
Gwyn Morgan President and Chief Executive Officer, AEC	155,000	3.60%	\$68.12	\$68.12	2006/03/05
Randall K. Eresman Vice-President, AEC President, AEC Oil & Gas	100,000	2.32%	\$68.12	\$68.12	2006/03/05
John D. Watson Vice-President, Finance and Chief Financial Officer, AEC	35,000	0.81%	\$68.12	\$68.12	2006/03/05
Drude Rimell Vice-President, Corporate Services, AEC	20,000	0.46%	\$68.12	\$68.12	2006/03/05
Hector J. McFadyen Vice-President, AEC President, AEC Midstream	20,000	0.46%	\$68.12	\$68.12	2006/03/05

*Aggregated Option Exercises during the most recently completed financial year and financial year-end
Option Values*

Name and Principal Positions	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at Financial Year-End		Value of Unexercised In-the-Money Options at Financial Year-End	
			Exercisable (#)	Non- Exercisable (#)	Exercisable (\$)	Non- Exercisable (\$)
Gwyn Morgan President and Chief Executive Officer, AEC	54,000	\$1,996,800	110,500	282,500	\$2,841,410	\$2,871,050
Randall K. Eresman Vice-President, AEC President, AEC Oil & Gas	15,000	\$ 674,900	44,500	167,750	\$1,078,415	\$1,486,855
John D. Watson Vice-President, Finance and Chief Financial Officer, AEC	14,000	\$ 535,598	18,250	88,750	\$ 397,565	\$1,220,325
Drude Rimell Vice-President, Corporate Services, AEC	–	\$ –	132,000	74,000	\$4,388,303	\$1,226,968
Hector J. McFadyen Vice-President, AEC President, AEC Midstream	–	\$ –	113,250	73,750	\$3,605,765	\$1,220,325

“Value of Unexercised In-the-Money Options at Financial Year-End” is based on the December 31, 2001 closing price of \$60.17 on the TSE.

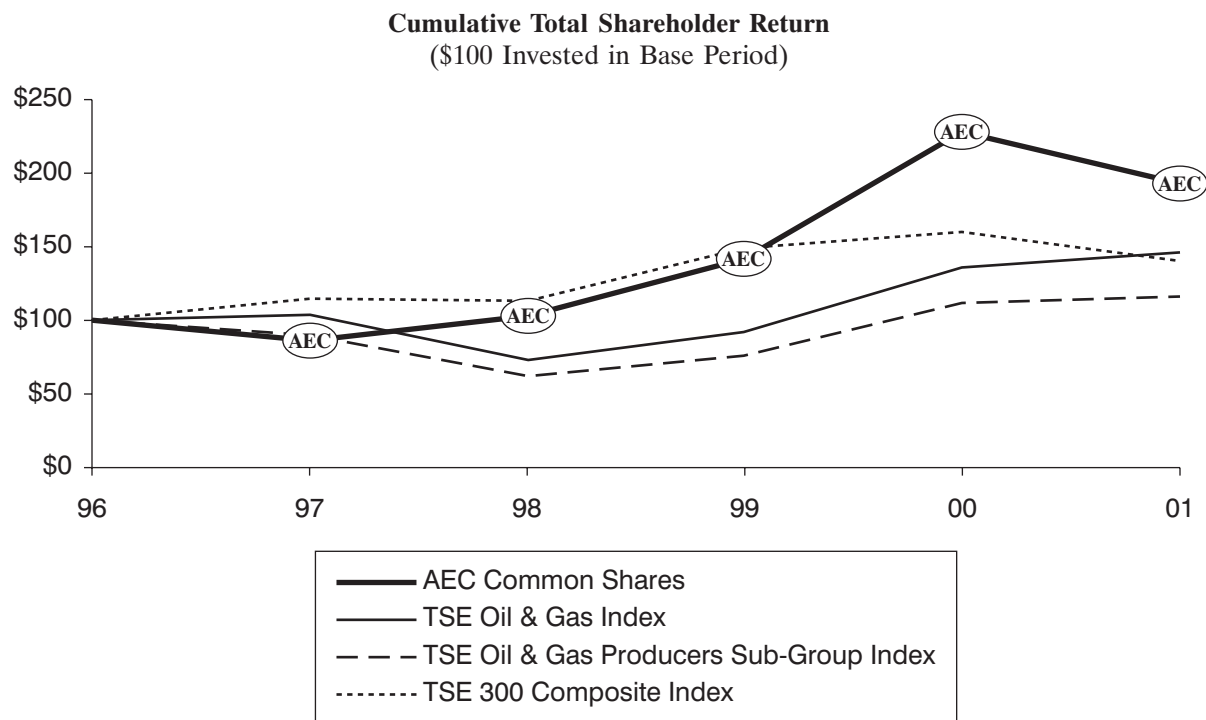
Pension Plan Table

Salary	Years of Service					
	15	20	25	30	35	40
\$ 300,000	\$ 86,513	\$115,350	\$144,188	\$173,025	\$201,863	\$230,700
\$ 325,000	\$ 94,013	\$125,350	\$156,688	\$188,025	\$219,363	\$250,700
\$ 350,000	\$101,513	\$135,350	\$169,188	\$203,025	\$236,863	\$270,700
\$ 375,000	\$109,013	\$145,350	\$181,688	\$218,025	\$254,363	\$290,700
\$ 400,000	\$116,513	\$155,350	\$194,188	\$233,025	\$271,863	\$310,700
\$ 425,000	\$124,013	\$165,350	\$206,688	\$248,025	\$289,363	\$330,700
\$ 450,000	\$131,513	\$175,350	\$219,188	\$263,025	\$306,863	\$350,700
\$ 475,000	\$139,013	\$185,350	\$231,688	\$278,025	\$324,363	\$370,700
\$ 500,000	\$146,513	\$195,350	\$244,188	\$293,025	\$341,863	\$390,700
\$ 525,000	\$154,013	\$205,350	\$256,688	\$308,025	\$359,363	\$410,700
\$ 550,000	\$161,513	\$215,350	\$269,188	\$323,025	\$376,863	\$430,700
\$ 575,000	\$169,013	\$225,350	\$281,688	\$338,025	\$394,363	\$450,700
\$ 600,000	\$176,513	\$235,350	\$294,188	\$353,025	\$411,863	\$470,700
\$ 625,000	\$184,013	\$245,350	\$306,688	\$368,025	\$429,363	\$490,700
\$ 650,000	\$191,513	\$255,350	\$319,188	\$383,025	\$446,863	\$510,700
\$ 675,000	\$199,013	\$265,350	\$331,688	\$398,025	\$464,363	\$530,700
\$ 700,000	\$206,513	\$275,350	\$344,188	\$413,025	\$481,863	\$550,700
\$ 725,000	\$214,013	\$285,350	\$356,688	\$428,025	\$499,363	\$570,700
\$ 750,000	\$221,513	\$295,350	\$369,188	\$443,025	\$516,863	\$590,700
\$ 775,000	\$229,013	\$305,350	\$381,688	\$458,025	\$534,363	\$610,700
\$ 800,000	\$236,513	\$315,350	\$394,188	\$473,025	\$551,863	\$630,700
\$ 825,000	\$244,013	\$325,350	\$406,688	\$488,025	\$569,363	\$650,700
\$ 850,000	\$251,513	\$335,350	\$419,188	\$503,025	\$586,863	\$670,700
\$ 875,000	\$259,013	\$345,350	\$431,688	\$518,025	\$604,363	\$690,700
\$ 900,000	\$266,513	\$355,350	\$444,188	\$533,025	\$621,863	\$710,700
\$ 925,000	\$274,013	\$365,350	\$456,688	\$548,025	\$639,363	\$730,700
\$ 950,000	\$281,513	\$375,350	\$469,188	\$563,025	\$656,863	\$750,700
\$ 975,000	\$289,013	\$385,350	\$481,688	\$578,025	\$674,363	\$770,700
\$1,000,000	\$296,513	\$395,350	\$494,188	\$593,025	\$691,863	\$790,700
\$1,025,000	\$304,013	\$405,350	\$506,688	\$608,025	\$709,363	\$810,700
\$1,050,000	\$311,513	\$415,350	\$519,188	\$623,025	\$726,863	\$830,700
\$1,075,000	\$319,013	\$425,350	\$531,688	\$638,025	\$744,363	\$850,700
\$1,100,000	\$326,513	\$435,350	\$544,188	\$653,025	\$761,863	\$870,700
\$1,125,000	\$334,013	\$445,350	\$556,688	\$668,025	\$779,363	\$890,700
\$1,150,000	\$341,513	\$455,350	\$569,188	\$683,025	\$796,863	\$910,700

The foregoing amounts only apply for retirement at age 62 and are reduced in the event of retirement before that date. The full years of credited service to date are Morgan – 35, Eresman – 23, Watson – 29, Rimell – 15 and McFadyen – 37. Morgan, Eresman, Watson and Rimell received an enhancement of three years credited service for strategic achievements in 2001. The Pension Plan provides for two percent of five-year final average salary for each year of credited service when combined with the Canada Pension Plan.

Performance Chart

The following graph illustrates changes over the past five-year period in cumulative total shareholder return, assuming an initial investment of \$100 with all dividends reinvested, in AEC Shares, the TSE Oil & Gas Index, the TSE Oil & Gas Producers Sub-Group Index and the TSE 300 Composite Index.



At December 31	96	97	98	99	00	01	5-Year Compound Average Growth Rate
AEC Common Shares	100	86	103	142	228	193	14%
TSE Oil & Gas Index	100	104	73	92	136	146	8%
TSE Oil & Gas Producers Sub-Group Index	100	90	62	76	112	116	3%
TSE 300 Composite Index	100	115	113	149	160	140	7%

Compensation of Directors

Each director was paid an annual retainer of \$30,000 which was paid in quarterly installments. For each meeting of the AEC Board (excluding the annual meeting for AEC) a fee of \$1,500 was paid to each director in attendance. A fee of \$1,500 was paid to each director in attendance at a special AEC Board meeting or a meeting of a committee of the AEC Board. When an AEC Board meeting was held at a location which required a director to incur substantial travel time from his or her normal residence, an additional fee equal to the normal meeting fee was paid to the director. Committee chairs received a supplemental fee of \$7,500 per annum, paid in quarterly installments. No fee was paid for the organizational meeting which followed the annual meeting of shareholders, and directors received no compensation for the time required to prepare for AEC Board or committee meetings. The non-executive Chairman of the AEC Board also receives an annual retainer of \$175,000. Each director received 5,000 options to purchase AEC Shares pursuant to the AEC Option Plan ratified by AEC Shareholders. Each director receives annually 1,000 deferred share units pursuant to a plan approved by the AEC Board and made effective as of June 8, 2001.

Indebtedness of Directors and Senior Officers

None of the directors or senior officers of AEC have been indebted to AEC or any of its subsidiaries during the financial year ended December 31, 2001 or subsequent thereto and prior to the date of this Joint Circular.

Interests of Management and Others in Material Transactions

Other than as disclosed in previous public filings of AEC or in this Joint Circular, none of the directors, officers or principal shareholders of AEC, nor any associate or affiliate of the foregoing, nor, to the best of the information and belief of the management of AEC, any of the former directors, senior officers or principal shareholders of AEC, nor any associate or affiliate of such former directors, officers or principal shareholders, have or have had any interest, direct or indirect, in any transaction, within the three years prior to the date of this Joint Circular or in any proposed transaction which has materially affected or will materially affect AEC.

Principal Shareholders

To the knowledge of the management of AEC, as at February 15, 2002, based on publicly available information and reasonable inquiries, no AEC Shares are beneficially owned, directly or indirectly, nor is control or direction exercisable over any AEC Shares, by any person or corporation holding more than 10% of the outstanding AEC Shares other than Fidelity Management & Research Company, which holds 17,599,395 AEC Shares, representing 11.9% of the outstanding AEC Shares.

Description of Share Capital

The authorized share capital of AEC consists of an unlimited number of common shares, 5,000,000 non-voting shares, 20,000,000 first preferred shares, 20,000,000 second preferred shares and 20,000,000 third preferred shares of which approximately 147.8 million common shares and no non-voting shares, first preferred shares, second preferred shares or third preferred shares were issued and outstanding as of February 15, 2002.

Auditor, Transfer Agent and Registrar

AEC's auditor is PricewaterhouseCoopers LLP, Chartered Accountants. The transfer agent and registrar for the AEC Shares in Canada is CIBC Mellon Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax and in the United States is Mellon Investor Services LLC at its principal office in New York.

APPENDIX H

INFORMATION RELATING TO PANCANADIAN ENERGY CORPORATION

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PanCanadian Energy Corporation

ANNUAL INFORMATION FORM

February 22, 2002

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Units

API	American Petroleum Institute
bbl	barrel
bbls/d	barrels per day
bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent; natural gas converted at 6:1
BTU	British Thermal Unit
mbbl	thousands of barrels
mcf	thousands of cubic feet
mmboe	millions of barrels of oil equivalent
mmcf	million cubic feet
mmcf/d	million cubic feet per day
NGL	any one or more of ethane, propane, butane and condensate (“pentanes plus”) and mixtures thereof
Western Basin	Western Canada and United States onshore

In this document, all dollar amounts are reported in Canadian dollars unless stated otherwise. PanCanadian follows the Canadian practice of reporting gross production and reserves volumes, which are prior to the deduction of royalties and similar payments. Information in this document is given as at December 31, 2001 unless otherwise indicated.

Forward-Looking Information

This document contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (United States) relating, but not limited, to operations, anticipated financial performance, business prospects and strategies of PanCanadian. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend” or similar words suggesting future outcomes or statements regarding an outlook on, without limitation, the timing and success of obtaining necessary consents and approvals for the Arrangement and Merger, oil and gas prices, estimates of future production, the estimated amounts and timing of capital expenditures, anticipated future debt levels and royalty rates, or other expectations, beliefs, plans, objectives, assumptions or statements about future events or performance.

Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information of PanCanadian involves numerous assumptions, inherent risks and uncertainties both general and specific that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. These factors include, but are not limited to: the availability and price of energy commodities; the effects of competition and pricing pressures; risks and uncertainties involving geology of oil and gas; operational risks in exploring for, developing and producing crude oil and natural gas; the uncertainty of estimates and projections relating to production, costs and expenses; shifts in market demands; risks inherent in the Company’s marketing and midstream operations; industry overcapacity; the strength of the Canadian economy in general; currency and interest rate fluctuations; general global and economic and business conditions including the extent and duration of the slowdown in the United States economy and possibly the economies of other countries in which PanCanadian conducts significant operations; changes in business strategies; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserves estimates; various events which could disrupt operations, including severe weather conditions, technological changes, and PanCanadian’s anticipation of and success in managing the risks implicated by the foregoing; potential increases in maintenance expenditures; changes in laws and regulations, including trade, fiscal, environmental and regulatory laws; and health, safety and environmental risks may affect projected reserves and resources and anticipated earnings or assets. Statements relating to “reserves” or “resources” are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

PanCanadian cautions that the foregoing list of important factors is not exhaustive. PanCanadian undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting this information.

ITEM 1 CORPORATE STRUCTURE

NAME AND INCORPORATION

PanCanadian Energy Corporation (“PanCanadian” or the “Company”) was incorporated under the *Canada Business Corporations Act* (“CBCA”) on June 26, 2001 in order to participate in the reorganization (the “CPL Reorganization”) of Canadian Pacific Limited (“CPL”) by way of plan of arrangement whereby, effective October 1, 2001, CPL distributed to its common shareholders all of the shares of five public companies holding the assets of CPL’s five primary operating subsidiaries, including PanCanadian. The holders of common shares of PanCanadian Petroleum Limited exchanged their shares for common shares of PanCanadian. At the conclusion of the CPL Reorganization, PanCanadian Petroleum Limited became a wholly-owned subsidiary of PanCanadian. PanCanadian Petroleum Limited and PanCanadian were amalgamated on January 1, 2002 and continue under the name “PanCanadian Energy Corporation”.

Prior to the CPL Reorganization, PanCanadian Petroleum Limited was a public company, approximately 85% of which was held by CPL and 15% by the public. PanCanadian Petroleum Limited was a North American energy company active in the exploration, development, production and marketing of natural gas, crude oil and NGL and the generation and marketing of electricity. Originally established by CPL in 1958 as Canadian Pacific Oil and Gas Limited, the Company began its operations using the fee simple lands that the Government of Canada had transferred to CPL as part of CPL’s building of the national railway across Canada. PanCanadian

Petroleum Limited resulted from the amalgamation, under the laws of Canada, on December 31, 1971, of PanCanadian Petroleum Limited (incorporated as Central Leduc Oils Limited in 1947) and Canadian Pacific Oil and Gas Limited (incorporated in 1958). PanCanadian Petroleum Limited was continued under the CBCA by a Certificate of Continuance effective April 9, 1980.

The registered and head office of PanCanadian is located at PanCanadian Energy Plaza, 150 - 9th Avenue S.W., Calgary, Alberta, T2P 2S5.

INTERCORPORATE RELATIONSHIPS

The following table provides the name, the ownership interest in and the jurisdiction of incorporation or formation of PanCanadian's major subsidiaries and partnerships.

	<u>Jurisdiction of Incorporation or Formation</u>
Wholly Owned Subsidiaries	
PanCanadian Energy Holdings Inc. ⁽¹⁾⁽²⁾	Delaware
PanCanadian Energy Services Inc.	Delaware
PanCanadian Energy Resources Inc.	Montana
PanCanadian Midstream Inc.	Delaware
PanCanadian Midstream Ltd.	Canada
PanCanadian Gulf of Mexico Inc.	Delaware
PanCanadian Energy (U.K.) Limited	England
Wholly Owned Partnerships	
PanCanadian Resources ⁽¹⁾⁽³⁾	Alberta
PanCanadian Heritage Lands	Alberta
Other Partnerships	
Kinetic Resources (LPG) 75%	Alberta
Kinetic Resources (U.S.A.) 75%	Michigan
Kingston CoGen Limited Partnership 25%	Ontario
Petrovera Resources 53.3%	Canada

(1) Total assets and total revenues of this entity constitute more than 10% of the consolidated assets and consolidated revenues of PanCanadian at December 31, 2001.

(2) PanCanadian's holdings in the United States are held by PanCanadian Energy Holdings Inc.

(3) Effective January 1, 1998, most of PanCanadian's domestic producing properties were transferred to the general partnership, PanCanadian Resources, to more efficiently and effectively manage such properties.

(4) The assets and revenues of PanCanadian's other subsidiaries and partnerships did not exceed 20% of the total consolidated assets or total consolidated revenues of PanCanadian at December 31, 2001.

ITEM 2 GENERAL DEVELOPMENT AND DESCRIPTION OF THE BUSINESS

RECENT DEVELOPMENTS

On January 27, 2002, PanCanadian and Alberta Energy Company Ltd. ("AEC") announced plans to merge their companies to create EnCana Corporation. The proposed merger is to be accomplished through a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Alberta). The Arrangement includes a common share exchange pursuant to which common shareholders and optionholders of AEC would receive 1.472 common shares and options for 1.472 underlying common shares of PanCanadian for each common share and option of AEC that they hold. On completion of the Arrangement, PanCanadian shareholders would own approximately 54% and AEC shareholders would own approximately 46% of PanCanadian, which would change its name to EnCana Corporation. AEC would become a wholly-owned subsidiary of EnCana Corporation. Subject to obtaining approvals of the common shareholders and optionholders of AEC, the common shareholders of PanCanadian, the Court of Queen's Bench of Alberta and appropriate regulatory and other authorities, the Arrangement is anticipated to close early in April 2002.

SUMMARY

PanCanadian is a North American energy company active in the exploration, development, production and marketing of natural gas, crude oil and NGL and the generation and marketing of electricity. PanCanadian's core areas include the Western Basin, encompassing interests in Western Canada and onshore in the United States of America ("United States"); the East Coast of Canada; the Gulf of Mexico; and the United Kingdom. These areas are complemented with focused exploration programs internationally.

PanCanadian has two operating segments: Upstream, and Marketing and Midstream, and operates in seven major lines of business: natural gas, light and medium crude oil, heavy crude oil, NGL, electricity generation, offshore North America exploration activities and international exploration activities. Marketed products include proprietary and third-party natural gas and electricity, crude oil, and NGL. Midstream activities include gas processing, NGL extraction and fractionation, transportation, storage and electricity generation.

UPSTREAM

PanCanadian's operations in the Western Basin and the Scott and Telford fields in the United Kingdom central North Sea are the source of the Company's upstream production revenue. Exploring and developing its landholdings in the Western Basin provided most of PanCanadian's production growth in 2001, but the Company has added production from, and sought opportunities in, other basins in order to create a diversified and risk-balanced portfolio. PanCanadian has developed strategic land positions offshore Nova Scotia, in the Gulf of Mexico and in the United Kingdom central North Sea. In addition, the Company has assessment or exploration programs in other regions, namely Australia, Brazil, Ghana and Yemen, where it is focused on opportunities in lighter crude oils that could develop into new, high impact growth platforms. Efforts are typically concentrated on regions that are relatively under-explored, but have a good probability of light/medium crude oil pools and offer the opportunity to establish a large land position. The Company's investment criteria also require that these regions include the possibility of pursuing a number of potential projects, often with high-quality partners, and offer attractive fiscal regimes. PanCanadian expects that its exploration activities offshore North America and in various international areas, will provide the Company's medium to longer-term production growth.

Western Basin Production

The Western Basin is PanCanadian's principal foundation for future growth, stemming largely from an unparalleled land position of 12.2 million gross acres (10.4 million net acres). The mineral rights on approximately half of this land is acreage owned in fee title by PanCanadian, which means that production is subject to a mineral tax that is generally less than the Crown royalty imposed on production from Crown-owned land. PanCanadian may farm-out or lease the lands and retain a lessor royalty, or it may retain both a working interest and a lessor royalty. Where only a lessor royalty is retained, the Company does not invest any capital. These lands have proven reserves of 991 million barrels of oil equivalent, and contributed average natural gas production of 1.044 billion cubic feet per day and average crude oil and natural gas liquids production of approximately 103,100 barrels per day in 2001. The Company is one of the most active drillers in the Western Basin, drilling 2,235 working interest wells in 2001. Royalty interest wells drilled on PanCanadian fee lands in 2001 totaled 1,493. Capital spending in the Western Basin is expected to be approximately \$1.129 billion in 2002 where an aggressive well program is planned.

United Kingdom Production

The Scott and Telford fields are located in the United Kingdom central North Sea, 117 miles northeast of Aberdeen, Scotland. PanCanadian's working interest at Scott is 13.5% and 20.2% at Telford. Oil produced from both fields is processed at the Scott platform and exported via pipeline to the non-operated Forties system. The fields complement existing PanCanadian acreage in the central North Sea. The Company began recording production from these fields on January 7, 2000.

Proven natural gas reserves of seven billion cubic feet were reported at December 31, 2001. Proven reserves for crude oil and field NGL were approximately 20.6 million barrels and one million barrels, respectively.

Development drilling plans include a four-well infill drilling program at Scott and a potential step-out development well at Telford. Capital spending for 2002 will be approximately \$19 million.

UPSTREAM BUSINESS LINES

PanCanadian has, over the last three years, been focusing on growing its natural gas business, advancing large-scale oil projects and building high-impact offshore and international exploration opportunities from strategic land positions.

Natural Gas

PanCanadian's continuing focus on growing natural gas volumes resulted in production levels reaching in excess of 1,050 million cubic feet per day in 2001, representing a compound annual rate of growth of approximately 10% since 1998. The Company drilled 1,540 gross working interest natural gas wells in 2001, virtually all of which were in the Western Basin.

A primary driver of this growth was increased production from the Western Basin where the Company has an extensive shallow-to-medium depth gas drilling program in southern Alberta. PanCanadian developed an operating expertise that allows it to explore for and bring on production from reserves in both the shallow- and medium-depth geological zones on these lands through a single wellbore. In 2001, proven reserve additions for natural gas in the Western Basin were 563 billion cubic feet, resulting in a proven reserve replacement rate of 148%. PanCanadian also built an internal expertise to co-ordinate groups of projects on these lands to realize cost efficiencies. Drilling success in deeper formations on lands in Alberta located west of the fifth meridian has also contributed to the growth in production.

Since 1999, with a primary focus in 2001, the Company has been investigating the possibility of producing natural gas from zones above the traditional shallow gas horizons on its fee lands, the "super shallow" zones. Early results suggest the presence of a potentially large resource. This is being evaluated in a proprietary geologic study, expected to be complete early in the second quarter of 2002. The natural gas accumulations may be accessible from existing well-bores which would enhance the profitability of production from these super shallow zones.

Adding to the potential on its existing lands, the Company continues to acquire undeveloped acreage, especially near its core gas-prone regions of operation. On October 31, 2000, PanCanadian completed the purchase of the exploration, production, midstream and marketing divisions of The Montana Power Company ("Montana Power") for approximately \$689 million, after closing adjustments, the largest acquisition in PanCanadian's history. Approximately 80% of the production from the acquired properties was natural gas which averaged approximately 94 million cubic feet per day at the time of the acquisition. More than half of the 1.2 million gross acres (595,000 net acres) acquired was undeveloped, adding to PanCanadian's strong base for growth and extending the Company's acreage further across southern Alberta and Saskatchewan, and into Montana, Wyoming, Colorado and Oklahoma. In 2001, activity focused on the acquisition of extensive seismic data, land acquisition and completion of the groundwork to support a much larger program than previously undertaken on the acquired lands. PanCanadian plans to use its operating expertise in shallow- and medium-depth natural gas exploitation to increase reserves and production from this acreage. The acquired infrastructure, including three cross-border pipelines, added to PanCanadian's ability to exploit currently undeveloped natural gas reserves in southern Alberta and provide direct access to United States markets.

On August 29, 2001, PanCanadian completed its acquisition of Causeway Energy Corporation ("Causeway") for approximately \$69 million. PanCanadian acquired Causeway's United States and southern Saskatchewan properties, including approximately 241,000 gross acres (210,000 net acres) of undeveloped land primarily in northern Montana near the properties acquired from Montana Power. The acquisition added daily production of 8.5 million cubic feet per day of natural gas and established reserves of 80 billion cubic feet of natural gas on a proven and one-half probable basis. A 100% interest in the cross-border Chinook Pipeline was also purchased, adding to the three cross-border pipelines acquired as part of the Montana Power transaction.

To complement the search for conventional natural gas sources in shallow and deeper targets, the Company has a program under way to investigate the development of natural gas from non-conventional sources to augment production growth in future years. Late in 2000, PanCanadian formed a joint venture with

MGV Energy Inc., a subsidiary of Quicksilver Resources Inc., to examine the potential for coal bed methane (“CBM”) — natural gas derived from coal seams. Originally, the joint venture’s exploration activity focused on fee lands in the Palliser block, which was an ideal location in which to launch the CBM program because of the contiguous nature of the fee land and PanCanadian’s associated mineral ownership rights, and the existence of established infrastructure.

Starting in the latter part of 2000, 25 exploration wells were drilled on one million acres in the Palliser block in southern Alberta. Initial results were encouraging and the joint venture proceeded with a 75 well pilot program, which will further delineate and define the reservoir continuity of the initial exploration wells. By year-end 2001, 53 of the planned 75 pilot wells were drilled and the remaining wells are scheduled to be completed by the end of the first quarter of 2002. Production of natural gas from a limited number of CBM wells was initiated into sales lines in January 2002. Analysis of core samples within the tested areas of the Palliser block indicates a PanCanadian resource potential of approximately nine trillion cubic feet from these areas.

In the fourth quarter of 2001, the joint venture expanded its exploration program into a large geographic area outside of the Palliser block, as planned, and started an additional 25 well exploration program. By the end of 2001, 12 wells were drilled and the remaining wells are expected to be drilled in 2002. This expansion is part of the Company’s plan to evaluate its total CBM potential.

The cost of these programs is approximately \$30 million and, if successful in the pilot phase, could support the move to full-scale development, potentially marking the first CBM commercial development in Canada. The Company anticipates being in a position to make decisions regarding commercial development by the end of the first half of 2002 and has begun the planning process.

PanCanadian’s southern Alberta natural gas production benefits from favorable transportation tolls. PanCanadian realized gas transmission savings of approximately \$22 million in 2001 from the specially negotiated Load Retention Service (“LRS”) rates on the Alberta System of TransCanada PipeLines Limited (the “NOVA System”). Continued savings are expected for a period of up to 16 years. The LRS toll of 16.4 cents per thousand cubic feet in 2001 was applicable to 602 million cubic feet per day of PanCanadian capacity in southern Alberta.

The AEUB approved a distance-based tolling system for the transportation of gas on the NOVA System, with implementation commencing on April 1, 2000. The new tolls more closely reflect the actual cost of transporting gas through the system from different locations and will further reduce PanCanadian’s gas transportation costs in southern Alberta for those volumes not subject to LRS.

Approximately 68% of PanCanadian’s 2002 capital budget of \$1.7 billion has been allocated to natural gas exploration and development in the Western Basin, where a 1,500 well program is planned.

Light, Medium and Heavy Crude Oil

While the main emphasis in the Western Basin is to increase the profitable production of natural gas, there are crude oil assets in the Western Basin that offer significant opportunities for growth. PanCanadian’s crude oil strategy in the Western Basin focuses on advancing its large-scale projects and optimizing the management of core properties.

Opportunities in crude oil production are facilitated by the development and application of industry-leading technology. The Company is pursuing the development of large, known opportunities in medium and heavy crude oil where it can apply innovative technology to deliver better profit margins. Key oil projects are the carbon dioxide (“CO₂”) miscible flood project at Weyburn and the Steam Assisted Gravity Drainage (“SAGD”) thermal heavy oil project at Christina Lake, one of the highest quality in-situ reservoirs of its kind in Canada. These crude oil projects will be key growth drivers for PanCanadian’s crude oil production in the Western Basin.

The Weyburn field, discovered in 1954, is PanCanadian’s single largest crude oil reservoir, containing 1.4 billion barrels of original oil in place, of which 25% has been recovered to date. PanCanadian, with a 62% working interest or a 50% economic interest, is the operator, and expects to improve ultimate recovery, in the enhanced oil recovery area, to 46% with a three-phase, CO₂ miscible flood project. PanCanadian had increased its interest in the Weyburn field to approximately 69% in 1997 to ensure that the proposed CO₂ miscible flood project proceeded. PanCanadian sold a seven percent working interest in the Weyburn Unit (the “Unit”) in July 2000, realizing net proceeds of approximately \$41 million. In a separate transaction later in the year, PanCanadian sold an 11.7% net royalty interest in the Unit for approximately \$78 million.

The injected CO₂ acts as a solvent to overcome forces that trap oil in small rock pores, and thereby increases oil production. It has the added benefit of reducing net CO₂ emissions into the environment by an estimated 14 million tonnes over the life of the project. The CO₂ flood project is expected to boost the field's ultimate recovery by 120 million barrels of medium gravity oil over the next 25 years. Production should increase from the current 20,000 gross barrels per day to 30,000 gross barrels per day by 2004. Production should then hold at that level for the next eight years. The total cost of the project is estimated at \$1.1 billion, of which about \$850 million represents the cost of CO₂. About 15% of the total project cost was spent by the end of 2001. The remaining expenditures relate primarily to the purchase of CO₂.

The first phase of the CO₂ flood project, targeting 25% of the anticipated incremental production, went into operation in late 2000, after completion of construction of a pipeline to deliver CO₂ to the project. The response to the initial phase of the project started in May 2001 and was better than planned. By year-end 2001, approximately 15% of the wells exhibited a response and some well rates rose by over 500 barrels of oil per day. The incremental oil rate at year-end was 4,200 barrels of oil per day with the majority of the response wells showing significantly lower water cuts. As well, conventional optimization efforts, such as utilizing high volume lift and redeploying underutilized equipment, led to an additional six percent increase in production, a significant accomplishment for a mature waterflood project.

In the area of oil sands, an oil sands team is evaluating and developing technologies to increase the volume of oil produced relative to the steam injected, reduce costs and enhance the product quality and value. The Company has operated a SAGD pilot at its Senlac location since 1996. In 2001, the Company saw the culmination of its expertise when two well pairs produced approximately 4,800 barrels of heavy oil per day in the fourth quarter of 2001, placing these wells among the most prolific oil producers in all of Western Canada. In addition, field operating costs were reduced, making thermal production attractive, even at low commodity prices.

PanCanadian believes its SAGD technology capability permits it to economically bring on production from Christina Lake in northeastern Alberta. The SAGD process works by drilling two horizontal wells, one about 15 feet above the other. Steam is injected into the reservoir through the upper well, heating the bitumen (heavy oil) so it will flow to the bottom horizontal well bore. The oil is then brought to the surface and sent to processing facilities.

The Company is constructing the first phase of a commercial SAGD facility at Christina Lake. This is PanCanadian's most significant oil sands project, with an estimated three billion barrels of oil in place. The recovery factor per well pair is expected to be in the range of 50% to 70%. PanCanadian acquired this high quality oil sands lease in 1997 as part of its acquisition of CS Resources Limited. The Company expects to start-up production from this reservoir with a project that has little exploration risk and the potential to fuel low-cost crude oil production growth for many years. In August 2000, PanCanadian received a permit under the *Environmental Protection and Enhancement Act* (Alberta) and ground preparation for phase one of the project began in the fourth quarter of 2000. The SAGD well pairs have been drilled and facilities construction is approximately 60% complete. Steam injection for phase one of the project is expected late in the first quarter of 2002, with production beginning at the end of the second quarter of 2002. Detailed engineering and equipment procurement is complete. Phase one is anticipated to produce 10,000 barrels per day of bitumen in 2003. PanCanadian holds a 100% working interest in the project. In June 2001, PanCanadian signed a memorandum of understanding with Enbridge Inc. to provide transportation services for Christina Lake, starting in late 2002.

The planned second and third phases at Christina Lake are expected to each produce 30,000 barrels per day, bringing total production to 70,000 barrels per day when all phases are complete in 2008. At this production level, the field is anticipated to have a reserve life of 25 years. The estimated capital expenditure for the three-phase development is \$500 million. The decision to proceed with the subsequent commercial phases is expected to be made in the next 12 to 18 months, after Phase one start-up.

In 2000 and 2001, the Company acquired additional oil sands leases at Crown land sales. In total, approximately 229,000 gross acres (222,000 net acres) were acquired, the majority of which were acquired in 2001. Just over 60,000 gross acres were acquired in Winefred Lake, supporting expansion of PanCanadian's current Christina Lake project. The remaining lands consist of large blocks of high quality SAGD and mining oil sands opportunities near the Firebag project, in an area east of Fort McMurray, and in an area north of the

recently announced Horizon project. Currently, these acquisitions establish the Company as one of the 10 largest oil sands lease holders in the Athabasca oil sands area of Alberta.

In addition to conventional SAGD at Senlac and Christina Lake, PanCanadian is aggressively pursuing high leverage technologies available to enhance oil sands development. The Company is examining two technologies designed to increase recovery and decrease costs of extraction at oil sands. One is a process that adds solvent to the steam used in SAGD recovery to reduce operating costs by upwards of 20%. The other is a new SAGD pump design that enables better control of the pressure within the reservoir upon contact by a well.

The Company is also looking at opportunities to use new technology that can be applied once the bitumen is on the surface. These technologies are expected to add to the value of the production as well as lower operating costs of transforming the bitumen into a more marketable crude oil. As an example, the Company has signed an agreement with Value Creation Inc. to jointly advance a partial upgrading technology. In addition, the process may provide significant environmental benefits by lowering greenhouse gas emissions. If positive results are achieved, the upgrading technology is expected to boost the project's overall return and has the potential to be used elsewhere to develop Alberta's vast oil sands resources.

On May 1, 1999, PanCanadian and Gulf Canada Resources Limited formed Petrovera Resources ("Petrovera"), a heavy oil partnership, to hold and manage the heavy oil assets of the two companies in order to achieve operating and cost synergies. PanCanadian contributed assets representing approximately 17,000 barrels per day of conventional heavy oil production derived from lands located along the Alberta-Saskatchewan boundary. In return, PanCanadian received a 53.3% interest in Petrovera. On July 13, 2001, Conoco Inc.'s subsidiary, Conoco Northern Inc., acquired Gulf Canada Resources Limited's interest in Petrovera. The partnership drilled 270 wells in 2001 and implemented a waterflood program on certain wells as a means of enhancing crude oil recovery. Average production in 2001 was approximately 18,500 barrels per day, being PanCanadian's 53.3% share of the Petrovera production. Petrovera's focus in 2002 will be to continue to efficiently exploit its large asset base of heavy oil plays.

PanCanadian's average daily crude oil production was approximately 102,000 barrels, of which 22,000 barrels per day, including the 18,500 barrels per day from Petrovera, was heavy crude oil production. Crude oil production from the Scott and Telford fields in the United Kingdom central North Sea averaged 10,800 barrels per day in 2001 and is included in PanCanadian's total average light and medium crude oil production of 80,000 barrels per day.

Field Natural Gas Liquids

In 2001, PanCanadian produced an average of approximately 12,000 barrels per day of NGL at field locations in the Western Basin. NGL volumes produced at field locations are directly related to the volumes of natural gas produced, the NGL content in the gas, extraction capabilities at the field facilities and the value of NGL relative to natural gas. The price of NGL components is generally related to crude oil prices. However, the value of certain products may also be affected by end-use demand, and regional supply and demand factors. At December 31, 2001, the Company reported proven field NGL reserves of approximately 47 million barrels in the Western Basin. NGL volumes are also produced at the Scott and Telford fields, but are insignificant.

Offshore North America Activities

East Coast of Canada

PanCanadian has developed one of the largest land positions offshore the East Coast of Canada, which has substantial reserve potential and close proximity to the large northeast United States market where there is strong demand for natural gas. PanCanadian established its presence early in this region and has continued to build on it. Currently, offshore Newfoundland, the Company has an interest in 4.3 million gross acres (2.6 million net), and offshore Nova Scotia, approximately 4.9 million gross acres (2.7 million net). PanCanadian operates 21 of its 27 exploration licenses and has an average working interest of 55%. PanCanadian is uniquely positioned in an area that is expected to rank among the top three natural gas basins in North America.

PanCanadian first entered this region with the acquisition of the Cohasset-Panuke (COPAN) oil-producing field in 1996. After successfully extending the life of the field through efficient management of the reservoir and

introduction of leading-edge technology, production was ceased at the Company's first commercial offshore crude oil project in December 1999. However, this initial presence provided a springboard to consolidating a strong land position and significant exploration success in the region.

In 1999, PanCanadian had a major discovery at its wholly-owned Deep Panuke natural gas field, located under the depleted COPAN field about 155 miles southeast of Halifax. The discovery well and two subsequent appraisal wells each flowed at rates of more than 50 million cubic feet per day, while a third appraisal well flowed at more than 60 million cubic feet per day. The rates of flow were limited by the capacity of the testing equipment. The Company currently estimates recoverable reserves of approximately one trillion cubic feet. In 2001, PanCanadian decided to proceed with commercial development of the \$1 billion project and took several steps designed to bring on production with an expected plateau production rate of 400 million cubic feet per day.

During 2001, the Company appointed a project general manager with extensive experience and knowledge in offshore engineering, construction and project management. The work on the front-end engineering design study is underway and the Development Plan Application for the project is expected to be filed with the Canada-Nova Scotia Offshore Petroleum Board later in the first quarter of 2002. It is expected that approval will be obtained in 2003. The Company awarded the contract for the front-end engineering design study to ACCENT-Saipem Energy Joint Venture. The study will include the preliminary design of process equipment, structures and pipelines and will enable PanCanadian to determine optimum development plans.

In addition, the Company has signed a firm service agreement with Maritimes & Northeast Pipeline ("M&NP") to transport up to 400 million cubic feet of natural gas per day for 10 years, from a time commencing not earlier than July 1, 2004 and not later than November 1, 2005. Natural gas will be piped from the offshore development at Deep Panuke to connect to M&NP's mainline at Goldboro, Nova Scotia and will be transported through to the main trunk line to markets in the northeast United States. This firm service agreement is conditional upon a number of factors related to timing, construction of facilities and regulatory approvals.

The Company also formed a partnership with Ocean Rig ASA ("Ocean Rig") of Norway that will offer deepwater drilling services to PanCanadian and other companies exploring offshore the East Coast of Canada. The partnership will use *Eirik Raude*, a large semi-submersible drilling rig, currently being constructed by Ocean Rig in Nova Scotia. The *Eirik Raude* is expected to be ready for drilling by the third quarter of 2002, when it will be used in PanCanadian's offshore East Coast exploration program with a focus on deepwater parcels. The partnership has contracted with PanCanadian for drilling services offshore Nova Scotia. The contract begins when the rig is completed and delivered to PanCanadian and will extend for a period of up to 15 months. Extension of this period will depend upon the success of the exploration program, and upon the time required to drill the wells covered by the contract.

In 2001, PanCanadian and its partners continued an exploration program. Three wells, Musquodoboit, Southampton and Queensland, have been drilled in shallow water by PanCanadian, as operator, while at Annapolis, a fourth well is being drilled in a deepwater block. The Musquodoboit and Southampton wells were abandoned. The Queensland well confirmed the migration path for hydrocarbons as well as trap and seal; however, the quality of the reservoir encountered was non-commercial. The Company is in the process of abandoning the well. The drilling of the Annapolis well is expected to be completed during the first quarter of 2002. The locations tested four geological plays in close proximity to the Deep Panuke field.

In addition to activities necessary to commence commercial production of Deep Panuke in 2005, PanCanadian will be actively exploring its acreage offshore Nova Scotia for the next several years, drilling from eight to 15 exploration wells. Any successes in the region could utilize parts of the Deep Panuke infrastructure.

The primary focus of the Company's Newfoundland oil exploration activities will be in the basin offsetting the Jeanne d'Arc. PanCanadian will participate in two deep-water wells in the Flemish Pass in 2002 with Petro-Canada as operator.

Gulf of Mexico

PanCanadian has continued to add to its resource base in the Gulf of Mexico where deepwater exploration offers some of the greatest potential for crude oil discoveries in North America. During 2000, the Company increased its landholdings in the Gulf of Mexico, acquiring a 100% interest in an additional 15 blocks – 13 in

the Brazos and Galveston shallow-water areas and two in the deep-water Garden Banks area. In 2001, the Company entered into two farm-in arrangements which will significantly increase its land inventory from 55 blocks to 142 blocks, with additional options that could expand its position to 269 blocks.

The Company entered this basin in 1997 through participation in selected farm-ins and through lease acquisition competitions, and in 1998 drilled a discovery well on the Llano structure in the Garden Banks area. PanCanadian holds a 22.5% interest in this discovery. After drilling two appraisal wells in 1999 and 2000, the project moved forward with the drilling of a fourth well under a new operator in 2001 to test the western extent of the reservoir. The well was drilled to a measured depth of 24,813 feet and evaluation of the results confirmed approximately 400 feet of net pay, the best reservoir quality encountered to date on the structure. Enterprise Oil Gulf of Mexico Inc. has assumed operatorship of the Llano field in respect of any further appraisal or development work and any lands acquired in the areas of mutual interest. With the completion of this last well, PanCanadian is working with its co-venturers towards development of the Llano discovery by evaluating the alternatives for field development. They expect to have the initial concept selection phase of the development work completed in the first half of 2002. An early production system using sub-sea completions and a tie back to another production platform could see production brought on by early 2004 at 30,000 to 40,000 gross barrels per day.

In 2001, PanCanadian also drilled two exploration wells and began a third well in the deep waters of the Gulf of Mexico through exploration agreements with ChevronTexaco and UNOCAL Canada Limited.

The agreement with ChevronTexaco provides that PanCanadian participate in drilling four exploratory wells to earn a 25% interest in 71 blocks, or approximately 409,000 gross acres (102,000 net acres), predominantly in the Mississippi Fanfold Belt on trend with the Neptune, Mad Dog, Atlantis and Champlain discoveries. The Company also has an option to participate in subsequent drilling to earn interests in an additional 93 blocks, or approximately 536,000 gross acres (134,000 net acres). Through an agreement with UNOCAL Canada Limited, PanCanadian earned a 25% interest in 16 blocks, or approximately 92,000 gross acres (23,000 net acres), in the Southern Keathley Canyon area where the partners are currently assessing the exploratory potential. The Company has an option to participate in subsequent drilling to earn interests in an additional 34 blocks, or approximately 196,000 gross acres (49,000 net acres).

Success at Llano and a substantial increase in its land position supports PanCanadian's strategy of building a core exploration and production area in the deepwater Gulf of Mexico. Going forward, PanCanadian anticipates drilling two to three exploratory wells in 2002 and three to five wells per year thereafter to capitalize on the experience gained at Llano and the additional inventory of land blocks. As well, PanCanadian plans to continue to enhance its position in the deepwater Gulf of Mexico through farm-ins, exchanges and acquisitions.

International Exploration Activities

United Kingdom North Sea

The United Kingdom North Sea became an exploration area for PanCanadian in 1996 through a multi-block farm-in agreement with an existing operator. The Company has since focused its activities in the Central North Sea accumulating exploratory prospects through successful participation in government acreage, trades and partnership deals. In the first quarter of 2000, PanCanadian completed the purchase of 20.2% and 13.5% interests in the Telford and Scott fields, respectively, for approximately \$259 million. In addition to proved reserves of 23 million barrels of oil equivalent, interests in associated production facilities and exploration acreage surrounding the Scott/Telford producing unit were acquired. In 2001, net daily production of crude oil and NGL was approximately 11,400 barrels. Since the Scott/Telford acquisition, PanCanadian initiated a joint re-evaluation of reserves that added 7.5 million barrels of oil equivalent to proven reserves in 2000.

Elsewhere, PanCanadian has interests in 35 blocks in the Central North Sea, with a land position of 940,500 gross acres (268,700 net acres). Interests range from 4.75% to 100%. In addition, the Company has interests in three deepwater frontier blocks in the Atlantic Margin west of Great Britain, comprising 622,900 gross acres (134,200 net acres).

In the spring of 2001, PanCanadian made a significant crude oil discovery in the Central North Sea at Buzzard. This field is located about 37 miles from shore in approximately 320 feet of water in close proximity to

existing infrastructure. PanCanadian is the operator and holds an approximate 45% interest in the discovery well that flowed at more than 6,500 barrels per day of light crude oil and approximately one million cubic feet per day of natural gas, with the rate constrained by the limits of the testing equipment. The initial well encountered 250 feet of pay and a sidetrack well, 4,400 feet to the east of the discovery well, extended the oil column to at least 750 feet. Under a normal production scenario, it is estimated that the wells drilled to date will be capable of producing up to 20,000 barrels of oil per day on a sustainable basis. The results of these two wells support estimates of potential oil in place in excess of 800 million barrels of oil of which the Company expects to be able to recover in excess of 400 million barrels (180 million barrels net to PanCanadian) in southern and central parts of the Buzzard accumulation which is higher than previous estimates. The northern portion of the accumulation has yet to be delineated, and could add to the current estimate. This makes Buzzard the largest discovery in the North Sea in the past 10 years. Buzzard is a new geological play type in the North Sea that had been underexplored, and is an example of how the Company initiates successful grass-roots exploration.

PanCanadian will continue an aggressive appraisal program on Buzzard. The Company plans to drill at least two additional wells and, where appropriate, associated sidetracks, utilizing both rigs, so that the appraisal program will be complete early in the second quarter of 2002. The focus will then turn to development of the asset. PanCanadian has been evaluating various production concepts, including an early production system approach. Once a production-concept decision is made, partners will proceed with detailed front-end design work. Depending on development options and reserve size, Buzzard could come on-stream in late 2004 with production in excess of 75,000 barrels per day. Development of Buzzard is estimated to cost approximately \$800 million, net to PanCanadian over a two-year period, with higher expenditures dependent upon whether additional drilling expands the size of the field.

In the United Kingdom central North Sea, PanCanadian has established a balanced portfolio of mid-life producing fields, near-term development opportunities and extensive exploration acreage. In addition to the activities at Buzzard, the 2002 exploration program includes drilling up to one exploratory well. Development drilling plans include a four well infill drilling program at Scott, which will begin in the first quarter of 2002, and a potential step-out development well at Telford. If successful, exploration prospects, such as Blackhorse, will likely have their potential enhanced by their proximity to the Scott/Telford infrastructure.

Other International

Focusing on building a select portfolio of opportunities for growth in new basins and with increased experience in deepwater drilling and evaluation of deep prospects, PanCanadian continued exploration in Australia, expanded its acreage position in Brazil, and entered Ghana and Yemen.

Offshore Australia, PanCanadian has established a large acreage position, with 15.7 million gross acres (5.6 net acres). PanCanadian has several permit interests in the Bonaparte Basin where the 2001 exploration program included the drilling of two wells in the third and fourth quarters of 2001. The 2001 exploration program also included an exploration well in the Timor Sea where the Company has a 25% working interest in one permit. PanCanadian sold its interest in the Woollybutt prospect as it did not meet the Company's core project criteria.

The Company has a 30% working interest in 14.1 million gross acres (4.2 million net acres) in the Great Australian Bight, an unexplored deepwater frontier basin offshore Southern Australia. As it did offshore Eastern Canada, PanCanadian took a position early in this play to secure a large land position. With a recently completed seismic survey, the Company plans to focus in 2002 on the southern Great Australian Bight where it will prepare for exploratory drilling. During 2001, PanCanadian also successfully bid on two blocks in the Gippsland basin, proximal to significant Australian oil production areas.

PanCanadian was one of the first independents to acquire offshore concessions in Brazil. In 2000, the Company acquired a 100% working interest in Block BM-C-7 in the Campos Basin, with about 474,000 acres, and a 50% working interest in Block BM-PAMA-1 in the Para-Maranhao Basin that covers about 887,000 gross acres (444,000 net acres). In addition to acquiring new or reprocessing existing seismic on these blocks in 2001, PanCanadian bid on and was awarded an additional concession for a 100% interest in BM-PAMA-2, a deep-water block covering 570,000 acres off Brazil's northeast coast. The new block complements the

Company's two existing blocks and establishes a strong exploration base. Late in 2002, PanCanadian plans to commence a 3D seismic program to refine drilling locations.

The West African margin has been the location of large offshore discoveries in recent years. PanCanadian's entry in 2001 into the Keta block offshore Ghana is anticipated to allow the Company to access a substantial basin that contains an extensive number of exploration leads and prospects. In 2001, 3D seismic was acquired with drilling planned for 2003.

In 2001, PanCanadian also acquired interests in two prospective blocks in Yemen. Block 47 (52.5% interest) is centrally located and adjacent to a producing hydrocarbon system, while Block 60 (39.015% interest) provides access to a play trending south from Saudi Arabia. The initial exploration activity is governed by a Production Sharing Agreement signed by PanCanadian Petroleum (Yemen) Limited, a wholly-owned subsidiary, that will operate Block 60. New 2D seismic is planned to optimize subsequent drilling in 2002.

MARKETING AND MIDSTREAM

The primary objective of PanCanadian's Marketing and Midstream business unit is to enhance the value of and manage risk for PanCanadian's production by ensuring the Company delivers the right energy at the right time and the best price, to a diverse energy market place. The business unit leverages PanCanadian's infrastructure, financial strength and broad industry experience by marketing both proprietary and third-party volumes. This provides enhanced service for the customer as well as increased profitability and breadth of scope for the Company. In addition, it provides market intelligence for PanCanadian, in support of its corporate risk management project and hedging decisions.

Midstream activities include gas processing, NGL extraction and fractionation, transportation, storage, and electricity generation. When a North American energy company markets in more than one commodity product, benefits can be derived from positioning production and midstream volumes with up-to-date market intelligence. Natural gas can be converted into NGL or electricity, or turned back, if the market indicates a greater earnings position in any one commodity. As well, when market conditions change, the Company can appropriately manage its natural gas assets for use within its diversified markets and between the strategic North American midstream and independent power project asset base.

The Marketing and Midstream division also manages energy services for PanCanadian and large end-use customers. Services include supply and least-cost sourcing, trading services, asset management, transportation management, dispatching and scheduling, accounting, regulatory surveillance, project development and real time energy optimization. In 2001, PanCanadian Energy Services, the Company's natural gas and electricity marketing arm, acquired new electricity consumption management software as part of a cost management initiative for the Company and for third-party customers.

PanCanadian Energy Services ranked in the top 20 marketers by volume of natural gas in North America, and together with PanCanadian's crude oil marketing operations is known for being one of the largest marketers in North America. From Houston in the United States, Calgary in Canada and a number of offices across North America, the business unit markets natural gas, crude oil, NGL and electricity throughout the North American continent and in the United Kingdom.

Intellectual capital and breadth of business in each of the natural gas, crude oil, NGL and now electricity commodities resulted in the Company growing its total BTU marketed capacity from 3.5 trillion BTU per day in 1999 to 4.6 trillion BTU per day in 2001, a 31% increase.

In 2002, the Marketing and Midstream business plans to continue to capitalize on opportunities to grow and diversify and supply the strategic and integrated critical market knowledge that supports PanCanadian's position as a North American energy company.

Marketing

Natural Gas and Electricity

In 2001, PanCanadian Energy Services, marketed 3.3 billion cubic feet of natural gas per day. In addition, in 2001, 474,000 megawatt hours of PanCanadian owned (generated) electricity was marketed. In 2000 and 2001,

the business unit grew partially through the acquisition of marketing entities that added new customers in Michigan, Montana and Colorado. The majority of natural gas is marketed directly to local distribution companies, gas marketing companies, large industrials and other merchant customers. Natural gas sales are generally made under long-term agreements with flexible month-to-month, seasonal or annual pricing and volumetric terms. Additional volumes are sold in the daily and monthly spot markets. PanCanadian's principal markets are Canada, the United States Midwest and California.

Revenues from the marketing of natural gas represented approximately 82% of total marketing revenue in 2001, in comparison with 80% in 2000. Virtually all revenue is derived from direct merchant sales to third parties.

Crude Oil

PanCanadian sells its Canadian crude oil production, as well as volumes marketed on behalf of others, to refiners in Canada, the United States and the United Kingdom, generally under long-term contracts at negotiated monthly prices. All of PanCanadian's total 2001 crude oil production was direct merchant marketed to third parties by PanCanadian. Approximately nine percent of total production is exported to the U.S. In 2001, PanCanadian's three largest crude oil customers were refiners, and collectively accounted for approximately 27% of PanCanadian's consolidated crude oil revenue. PanCanadian marketed an average of approximately 175,000 barrels per day of crude oil during 2001.

The signing of the memorandum of understanding with Enbridge Pipelines (Athabasca) Inc. to provide transportation and handling services for PanCanadian's Christina Lake oil sands operation provides additional flexibility for the marketing group in meeting future transportation and customer needs. This flexibility arises because the Company will be able to ship different Christina Lake products on the pipeline.

PanCanadian has, for several years, provided marketing services to Canadian Oil Sands Trust ("COS"). In July 2001, COS and Athabasca Oil Sands Trust merged to form Canadian Oil Sands Trust. PanCanadian provides marketing services to the combined trust. As a result of this combination, the percentage of Syncrude crude oil volumes currently marketed by the Company more than doubled from 10% to approximately 22% or 55,000 barrels per day in the second half of 2001.

Early in 2002, PanCanadian also secured the right to market a significant portion of the Alberta government's crude oil volumes. The agreement has a five-year term and commences in 2002.

Natural Gas Liquids

Kinetic Resources, an affiliate in which PanCanadian owns 75%, is one of the largest marketers of NGL in Canada. It markets PanCanadian's Western Basin NGL primarily to Eastern Canada and the United States. This partnership also markets NGL on behalf of other parties increasing the volumes available for sale and improving market access and netback margins.

Midstream

Independent Power Projects

Growing demand for electricity in North America and the ability to convert natural gas to electricity positioned PanCanadian to benefit from opportunities in the deregulated power market in Alberta. In 2001, the business unit completed construction of two 106-megawatt power plants in southern Alberta to supply electricity to the Alberta Power Pool and received a permit from the National Energy Board to export electricity into the United States for a period of 10 years. The Cavalier Power Station began selling electricity to the Alberta Power Pool in late August 2001. The plant, located approximately 34 miles east of Calgary, is 100% owned and operated by PanCanadian. Also near Calgary, the Balzac Power Station, in which PanCanadian holds a 50% interest, was brought into service in December 2001, at 80% capacity with a third party as the operator. It is anticipated that both plants will achieve full capacity during the first quarter of 2002, at which time each plant will have a generation capacity of 106 megawatts of power. These plants position PanCanadian as one of the largest independent power producers in Alberta.

The Company holds a 25% working interest in a 110-megawatt cogeneration facility in Kingston, Ontario. During 2001, PanCanadian announced a third natural gas-fired power generation project that is contracted to be

in service by December 2004. The Company entered into a memorandum of understanding with Canadian Fertilizers Limited (“CFL”) for the development of an 85 megawatt natural gas-fired cogeneration plant to be located at CFL’s nitrogen complex in Medicine Hat, Alberta. The facility will be developed and owned by PanCanadian, and will provide steam to CFL. Currently, the Company plans to sell the power to the Alberta Power Pool.

PanCanadian Energy Services’ Power Group focuses on developing and marketing midstream and downstream assets, principally electricity generating projects, in regions of North America that closely match the Company’s existing gas production and marketing. Through the development and acquisition of assets, the Power Group’s strategy is to capitalize on the Company’s option to convert natural gas to electricity.

The following table describes PanCanadian’s interests in existing and planned electricity generating projects at maximum megawatt capacity.

Megawatt Capacity

<u>Facility</u>	<u>Megawatt Capacity</u>	<u>Ownership (%)</u>	<u>PanCanadian Megawatt Capacity</u>
Kingston	110	25	27
Cavalier	106	100	106 ⁽¹⁾
Balzac	106	50	53 ⁽¹⁾
Medicine Hat	85	100	85 ⁽²⁾
Total Planned Megawatt Capacity			<u>271</u>

(1) The sale and marketing of electricity capacity in Cavalier and Balzac began in August 2001 and December 2001, respectively.

(2) Expected to be in service by December 2004.

NGL Midstream Assets

PanCanadian holds an ownership interest in four NGL extraction plants that straddle the major gas transmission pipelines at Empress, Alberta. The rights to extract NGL from natural gas transported through these pipelines were acquired from the shippers of the natural gas. The quantity of NGL extracted is a function of the volume of natural gas flowing through the gas transmission lines, the NGL content of the natural gas and the value of NGL relative to natural gas. When NGL values are less than natural gas values, the Company may decide to reduce extraction of NGL. The Company’s Empress NGL extraction plant will undergo an expansion beginning in 2002, that is expected to provide incremental ethane production of up to 19,000 barrels per day by the fall of 2003. As at December 31, 2001, PanCanadian’s share of the combined processing capacity is approximately 1.7 billion cubic feet per day.

The Company also owns and operates an NGL extraction and natural gas processing facility at Fort Lupton, Colorado that has processing capacity of 90 million cubic feet per day. PanCanadian has reviewed expansion opportunities for this facility and has determined that an increase in current processing capacity would require the addition of another process train. There is not enough residue gas pipeline capacity for processing capacity above 120 million cubic feet per day, but the facility is less than one mile from a transmission line, so an expansion to this level would be relatively inexpensive. This facility, along with firm pipeline capacity, a gathering system and storage infrastructure, was acquired as part of the Montana Power acquisition.

Ethane recovered is sold as a specification product to petrochemical companies for consumption within Alberta. The remaining NGL components are transported as a mixed stream by pipeline to a plant in Sarnia, Ontario in which PanCanadian holds a 10.35% interest, or to a plant at Marysville, Michigan in which capacity is leased by Kinetic Resources. The mixed stream is fractionated at these plants into its components, propane and butane, which are then sold to distributors, refiners and petrochemical manufacturers in Canada and the United States under contracts, the term of which are typically one year or less.

In 2001, combined NGL production averaged 26,000 barrels per day.

Other significant Midstream assets include interests in:

- an NGL pipeline connecting Empress, Alberta, with the Enbridge pipeline and storage facilities at Kerrobert, Saskatchewan;
- an NGL storage facility and depropanizer at Superior, Wisconsin;
- an NGL storage facility at Marysville, Michigan; and
- several crude oil pipelines in Alberta and Saskatchewan.

HUMAN RESOURCES

As of December 31, 2001, PanCanadian had 2,152 employees of which 1,901 reported to the Upstream operating segment and 251 reported to the Marketing and Midstream segment.

GOVERNMENT REGULATION

Regulation

Canada: Canadian federal and provincial governments regulate various aspects of the oil and gas industry, including such matters as land tenure, prices, royalties, production rates, environmental protection controls, income and exports. The oil and gas industry is also subject to regulation in such matters as production, drilling obligations, control over the development and abandonment of fields and possibly expropriation or cancellation of contract rights. Failure to obtain regulatory approvals, or failure to obtain them on a timely basis, could result in delays, abandonment or restructuring of projects and increased costs, all of which could negatively affect future earnings and cash flow.

United States Offshore: The Mineral Management Service (“MMS”), an agency of the United States Federal Government Department of the Interior, regulates leasing, exploration, development and production of mineral resources in the Gulf of Mexico. Leases are acquired through a semi-annual cash bonus bid competition. All mineral lease operations are subject to stringent control by numerous applicable United States federal laws. In particular, there is strict enforcement of environmental safeguards and safety standards. Lease operations throughout the exploration to production cycle require comprehensive application processes for government approval and issuance of permits. Failure to comply with government regulations may result in the cancellation of a lease.

United States Onshore: The MMS also regulates United States onshore activity. Leases are acquired through a competitive bid process and can be acquired from either the United States Federal Government, the State, or Freeholders, generally on a monthly basis and varies depending on the owner. All mineral lease operations are subject to stringent control by numerous applicable United States federal and state laws. In particular, there is strict enforcement of environmental safeguards and safety standards. Lease operations throughout the exploration to production cycle require comprehensive application processes for government approval and issuance of permits. Failure to comply with government regulations may result in the cancellation of a lease.

United Kingdom/Europe: The upstream oil and gas industry in the United Kingdom offshore is subject to regulation primarily by the Government of the United Kingdom, as well as by the Parliament and Commission of the European Union. Aspects of the upstream business affected or potentially affected by such regulation include: tenure of exploration and production licenses, royalties, production rates, competition policy, health, safety and environmental protection measures, approval of field development, and decommissioning plans.

The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for crude oil and natural gas, increase costs and have a material adverse impact on PanCanadian.

Production Rates and Marketing

Canada: The Alberta Energy and Utilities Board (the “AEUB”) has the right to restrict production to ensure that acceptable engineering practices are applied in exploiting crude oil and natural gas reservoirs. A permit from the AEUB is required in order to remove natural gas from Alberta. The test applied in granting a

permit is whether the gas reserves are sufficient to support the permit volumes and whether those reserves are surplus to present and future Alberta requirements.

United States Onshore: Each State has the right to restrict production to ensure that acceptable engineering practices are applied in exploiting crude oil and natural gas reserves.

Exports

The Government of Canada, through the National Energy Board (“NEB”), regulates exports of crude oil, natural gas, NGL and electricity. For light and medium crude and NGL exports for periods up to one year, and heavy crude exports for periods up to two years, licenses are not required and the crude oil and NGL are exported under short-term orders. A Fair Market Access procedure was implemented by the NEB for approvals of long-term exports of crude oil in 1997. Natural gas exports for a period under two years are exported under short-term orders and for any period in excess of two years exports require an NEB license. An export license application is subject to a public hearing, which can take the form of a written or oral proceeding. Natural gas exports for terms of less than two years are authorized by order without a public hearing. An NEB export license will not take effect until approved by the federal Governor-in-Council. Before granting a license, the NEB must be satisfied that the gas to be exported is surplus to reasonably foreseeable Canadian requirements, including trends in discoveries, and that the issuance of the license would otherwise be in the public interest. Electricity is exported under a permit unless the NEB recommends exportation to be designated by an Order in Council, then it would be exported under a license. The NEB will authorize such permit or license for a term of up to 30 years. Such permits are authorized without holding a public hearing. The NEB also screens any environmental impacts directly connected to the proposed export as part of its public interest jurisdiction. Companies exporting natural gas to the United States must also obtain an import certificate from the United States Department of Energy, Office of Fossil Energy.

Petroleum and Natural Gas Rights

Canada: Onshore oil and gas rights in Canada are either government or privately owned. Rights in provincially owned lands derive from licenses and leases. Licenses define an exploration area’s boundaries and the type of work required to maintain the license. The satisfaction of license requirements entitles the holder to convert all or a portion of the licensed rights to lease form. Leases entitle the lessee to explore for, develop and produce petroleum and natural gas in the leased area. Private owners of mineral rights also grant freehold leases. Both Crown and freehold leases are maintained by payments and by production or productive capability.

In the offshore areas of Nova Scotia and Newfoundland, oil and gas rights are issued and administered by boards established jointly by the federal government and each of the provincial governments. Exploration licenses are awarded through a bidding process based on commitments to conduct exploration work. An exploration license is valid for an initial term of five years, which is extended to nine years if a well is drilled. If a significant discovery is made, the portion of the exploration license containing the discovery may be held indefinitely by converting the lands to a significant discovery license. If a discovery is shown to be commercial, the holder of an exploration license or a significant discovery license may apply to have the lands containing the discovery included in a production license. Production licenses allow the production of oil and natural gas, subject to certain regulatory requirements, including the requirement to have a development plan approved. Production licenses remain in effect for 25 years and after that for as long as commercial production continues.

United States Offshore: In the Gulf of Mexico, deep-water leases have a term of either eight or 10 years and shallow water leases, a term of five years. At the end of the primary terms, a lease can be held by ongoing production, ongoing operations, a suspension of production or operations authorized by MMS, or inclusion in a unit. The eight year leases also have an additional requirement that a well must be drilled within the first five years in order to extend the primary term for the remaining three years.

United States Onshore: The United States Federal Government, the States or Freeholders own mineral rights. United States Federal Government and State leases are generally for a five year term. Freeholder leases are negotiated and vary depending on acceptable terms.

United Kingdom: The United Kingdom government issues exploration and production licenses. Companies bid to undertake a mandatory exploration program to be performed in the initial term, which is generally six years. Licenses are typically 36 years in duration and are subject to an acreage relinquishment requirement, which varies depending on tenure of the licenses.

Royalties, Taxes and Incentive Programs

Canada: In Canada, where the majority of PanCanadian's royalties are paid, provincial governments impose royalties on the production of crude oil, natural gas and related products from the lands they own. Royalties are determined by regulation and the rates of royalties payable generally depend on well productivity, selling prices, method of recovery, location of production and field discovery date. In addition, the provinces of Alberta and Saskatchewan require payment of a mineral tax from the owner of mineral rights (fee lands) where production occurs. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral rights owner and the lessee.

United States Offshore: In the United States, fixed-rate production royalties payable to the MMS are calculated at 16.7% for production from leases in shallow-waters and 12.5% for production from leases in water depths greater than 1,200 feet. As a means to promote lease sale and exploration activity in the Gulf of Mexico, the MMS will from time to time offer royalty relief programs providing that a stipulated volume of first production from a lease is not subject to royalty payments.

United States Onshore: United States Onshore royalty rates vary and can be fixed or variable. Freehold royalty rates are negotiated and each State's royalty rate varies and can be negotiated as part of the bid process. In addition to royalties, individual States charge a production tax which varies by State. Royalty and production relief programs are offered by various States. Federal royalty rates are generally 12.5%.

United Kingdom: The United Kingdom government establishes rates of royalty and taxation applicable to crude oil and natural gas production and regulates exploration, development, decommissioning of offshore facilities, conservation and rates of production.

Revenue from production attributed to certain fields may be subject to United Kingdom Petroleum Revenue Tax ("PRT"), which is deductible for income tax purposes. The rate of PRT charged on current oil and gas production is 50% on oil and gas fields given development consent before March 16, 1993. Fields given development consent on or after March 16, 1993 are not subject to PRT. PanCanadian's share of production from the Scott field is subject to PRT, whereas production attributed to the Telford field is not.

Current United Kingdom regulations specify that no royalty is payable on production from fields receiving development approval after April 1, 1982. Accordingly, PanCanadian's United Kingdom production is not subject to the royalty provisions that would otherwise apply.

Electricity Pricing and Deregulation in Alberta

Effective January 1, 2001, the Province of Alberta commenced the deregulation of the electricity industry. The majority of the Company's electricity supply is now subject to non-regulated pricing. In order to mitigate this exposure, PanCanadian commenced electricity generation from two separate facilities in Alberta in the third and fourth quarters of 2001.

Environmental Protection

Environmental legislation affects nearly all aspects of PanCanadian's operations. These regulatory regimes are laws of general application that apply to PanCanadian in the same manner as they apply to other companies and enterprises in the energy industry. These laws and regulations generally require PanCanadian to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the disposal or release of specified substances. The Company's operations may also be subject to claims by private parties for damages resulting from PanCanadian's operations and their impact on the environment. In addition to existing requirements, the Company expects occasional changes in legislation with respect to the environment. PanCanadian monitors legislative trends and participates in the development of proposed regulations where they will affect the business.

PanCanadian has developed and implemented an Operations Risk Management System (“ORMS”). ORMS aims to integrate health safety and environmental issues in all project and operational decision making. In this context, protection of the environment is mandated through the system’s policy development, environment impact assessment, facility inspection, land reclamation, waste management, air emission control and decommissioning processes. The Company maintains a solid record of compliance reporting and response to public concerns. No extraordinary capital expenditures relating to environmental controls for existing or new facilities are expected at this time.

PanCanadian continues to participate in Canada’s National Climate Change Program as well as taking an active role in the province of Alberta’s Climate Change Central Initiative. The Company’s action on climate change has been demonstrated by substantial reductions of greenhouse gases from operations over the past seven years. PanCanadian understands the relevant issues and has the appropriate monitoring and operational programs in place to manage climate change issues.

Canada, the United States and more than 160 other nations are signatories to the 1992 United Nations Framework Convention on Climate Change, which is intended to limit emissions of carbon dioxide and other “greenhouse gases” that may be contributing to the suspected increase in mean global temperature. In December 1997, thirty-nine industrialized nations that signed the Convention, including Canada and the United States, established the Kyoto Protocol which contained a binding set of emission targets for developed nations that would result in the reduction of greenhouse gases. The average reduction in greenhouse gas emissions required from all 39 signatories is 5.2% from 1990 emission levels, to be achieved between 2008 and 2012, although specific emission targets vary from country to country. Canada for example, would be required to reduce emissions by 6% from 1990 levels.

On July 23, 2001, at the Sixth Conference of Parties on Climate Change in Bonn, Germany, a broad political agreement was reached on the operational rulebook for the 1997 Kyoto Protocol.

Following this political agreement, Canada has stated that extensive consultations with provincial and territorial governments, and all stakeholders will help form Canada’s decision on ratification of the Kyoto Protocol. Recently, the provincial governments have lobbied the federal government not to sign the Kyoto Protocol citing the negative economic impact that such protocol would have on industry. While the federal government has indicated that ratification could take place in 2002, industry leaders continue to lobby against such action.

Canada and the United States have not introduced comprehensive regulations addressing greenhouse gas emissions and emission targets. The United States has stated its opposition to the Kyoto Protocol and Canada has yet to ratify it. At the present time, federal and provincial programs in Canada seek to control emissions of greenhouse gases through voluntary initiatives.

PanCanadian remains committed to the principles of greenhouse gas management through geological sequestration, improved operational efficiencies, research, public policy input, education for employees and regular reporting to external stakeholders. Greenhouse gas emissions are managed as one of PanCanadian’s business and environmental risks through its risk management systems. PanCanadian recognizes that climate change is a global issue and it is also participating in national and international efforts to create emission trading venues that will encourage reduction projects wherever they are the most effective. However, depending on when and how the Kyoto Protocol is implemented, PanCanadian may incur additional costs in its operations, as a result of the application of the Kyoto Protocol.

Occupational Health and Safety

PanCanadian’s operating procedures and practices meet or exceed current legislative requirements. PanCanadian has implemented appropriate risk management stewardship aimed at providing a healthy and safe workplace for employees. This process mandates reasonable care through stewardship of safety audits, inspections, risk assessments, emergency preparedness planning and competency development. PanCanadian actively participates in and commits to, industry initiatives to improve corporate and industry’s health, safety and environmental performance.

Industry Conditions

The Company expects natural gas prices to weaken from the average price experienced in 2001. Sluggish industrial demand and high storage levels are expected to limit recovery of natural gas prices in 2002. With continued weak demand, surplus OPEC capacity and increasing non-OPEC supply, the Company expects 2002 crude oil prices to be lower than the average for 2001.

Heavier grades of crude oil require more processing than light oil and thus generally receive a lower price. The price difference between a barrel of light and various heavy crude oils is determined by oil refiners and is called a differential. Typically heavier crude oil differentials widen as light crude oil prices rise. A wider differential between heavier and lighter crude oil prices persisted for most of 2001. Canadian crude oil differentials are expected to narrow slightly from the high levels experienced since the fourth quarter of 2000. The Company defines heavy oil to be crude oil with a gravity less than 18° API, for the purposes of its operations and has reported average heavy oil production of 22,000 barrels per day. However, approximately 60% or 55,000 barrels per day of PanCanadian's Western Basin average crude oil production is subject, to some extent, to the volatility of heavier crude oil differentials.

The Company is exposed to potential credit related losses in the event that counterparties to contracts fail to perform. PanCanadian minimizes the risk of such losses through credit management practices mandated through approved credit policies and procedures to ensure that exposures are held within acceptable levels. PanCanadian does not have a significant concentration of credit risk with any single counterparty.

Commodity price volatility resulting from supply and demand imbalances can have a strong impact on regional economies. In 2000-2001, the financial crisis facing two of California's largest utilities created the possibility of supply reductions by gas suppliers attempting to mitigate credit risk. In addition, late in 2001 Enron Corp. filed for bankruptcy. PanCanadian did not experience any significant counterparty loss in 2000 or 2001.

Straddle plant operating margins have been substantially reduced in 2001 and became negative at certain times during the year. PanCanadian has at times reduced production to lessen negative margins. Lower NGL revenues from the reduced production will be offset by increased natural gas revenues.

In 2000, the Canadian federal government announced significant decreases in general corporate income tax rates of seven percent, to be phased in during the years 2001 to 2004. The federal rate reduction is limited by reference to the amount of resource allowance claimed. As a result, the Company does not expect to be eligible for the lower federal rates on most of its taxable income. Along with other members of the resource industry, PanCanadian is in continuing dialogue with the federal government over this limitation and other possible changes to federal income tax legislation affecting the industry.

DRILLING ACTIVITY

In 2001, PanCanadian participated in the drilling of 2,251 gross working interest wells which resulted in 421 oil wells, 1,540 natural gas wells, and 84 coal bed methane wells. Overall, PanCanadian had interests, including royalty interests, in the drilling of 3,744 wells in 2001. Details are provided in the following table.

<u>WORKING INTEREST</u>	<u>2001</u>		<u>2000</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
	(number of wells)			
Exploratory				
Oil	84	60	98	67
Gas	332	296	251	234
Coal bed methane	84	42	—	—
Service	8	5	5	3
Dry	115	93	87	64
	<u>623</u>	<u>496</u>	<u>441</u>	<u>368</u>
Development				
Oil	337	199	432	278
Gas	1,208	1,099	1,542	1,502
Service	45	20	65	30
Dry	38	30	50	39
	<u>1,628</u>	<u>1,348</u>	<u>2,089</u>	<u>1,849</u>
	<u>2,251</u>	<u>1,844</u>	<u>2,530</u>	<u>2,217</u>
ROYALTY INTEREST				
Exploratory	260		373	
Development	1,233		1,064	
	<u>1,493</u>		<u>1,437</u>	
TOTAL WELLS	<u>3,744</u>		<u>3,967</u>	
Western Basin				
Canada	3,629		3,941	
United States	99		9	
Other North America				
Canada	2		3	
United States	3		2	
International				
Australia	4		6	
United Kingdom	7		3	
Libya	—		2	
South Africa	—		1	
TOTAL WELLS	<u>3,744</u>		<u>3,967</u>	

(1) Net wells are the sum of PanCanadian's fractional interest in gross wells.

DRILLING SUCCESS

WORKING INTEREST	2001		2000	
	Gross	Net	Gross	Net
	(percent)			
Exploratory	82	81	80	83
Development	98	98	98	98
	<u>93</u>	<u>91</u>	<u>95</u>	<u>95</u>

(1) Service wells are included in the success ratios.

LOCATION OF PRODUCTION

PanCanadian's average daily production for the two years ended December 31, 2001 and 2000 was as follows:

	2001	2000
Crude Oil and Field Natural Gas Liquids (bbls/d)		
Western Basin		
Crude oil	91,146	97,719
Field natural gas liquids	11,940	11,620
	<u>103,086</u>	<u>109,339</u>
International		
United Kingdom		
Crude oil	10,821	11,815
Field natural gas liquids	541	866
	<u>11,362</u>	<u>12,681</u>
Total crude oil and field natural gas liquids	<u>114,448</u>	<u>122,020</u>
Natural Gas (mmcf/d)		
Western Basin	1,044	940
International — United Kingdom	9	9

(1) Royalty interest production included in Western Basin in the above table is as follows:

	2001	2000
Conventional crude oil (bbls/d)	11,182	11,303
Field natural gas liquids (bbls/d)	2,212	3,202
Natural gas (mmcf/d)	118	116

LOCATION OF WELLS

Approximately 80% of PanCanadian's net producing wells are located in Alberta. The number of producing, or capable of producing, wells in which PanCanadian had a working interest as at December 31, 2001, was as follows:

PRODUCING WELLS	As at December 31, 2001					
	Oil		Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
Western Basin						
Alberta	4,408	3,058	11,425	10,558	15,833	13,616
Saskatchewan	4,470	1,980	254	119	4,724	2,099
British Columbia	2	2	14	6	16	8
United States	84	83	1,579	1,170	1,663	1,253
	<u>8,964</u>	<u>5,123</u>	<u>13,272</u>	<u>11,853</u>	<u>22,236</u>	<u>16,976</u>
International						
United Kingdom	33	5	—	—	33	5
Total	<u>8,997</u>	<u>5,128</u>	<u>13,272</u>	<u>11,853</u>	<u>22,269</u>	<u>16,981</u>

(1) In the Western Basin, PanCanadian has varying royalty interests in 9,610 oil wells and 10,378 natural gas wells, the majority of which are in Alberta, and are producing or capable of producing.

RESERVES

The following table provides a reconciliation of PanCanadian's reserves for 2001 and summarizes PanCanadian's reserves as at December 31, 2001.

2001 RESERVES	Conventional Crude Oil	Natural Gas Liquids	Natural Gas	Total
	(mbbl)	(mbbl)	(bcf)	(mmboe)
Proven Reserves January 1	388,441	40,628	3,681	1,042
Extensions and discoveries	15,208	5,408	493	103
Improved recoveries	1,242	1	—	1
Revisions of previous estimates	2,861	5,999	71	21
	19,311	11,408	564	125
Purchases of reserves in place	440	4	37	7
Sales of reserves in place	(56,545)	(34)	(1)	(57)
Net additions	(36,794)	11,378	600	75
Production	(37,218)	(4,556)	(384)	(106)
Proven Reserves December 31	314,429	47,450	3,897	1,011
Undeveloped included in above at December 31	42,923	8,160	656	160
Royalty Interest included in above at December 31	18,110	2,839	336	77
Probable Reserves January 1	225,488	9,716	1,174	431
Extensions and discoveries and reclassifications to proved reserves	134,324	45	92	149
Improved recoveries	—	—	—	—
Revisions of previous estimates	(19,209)	19,582	(194)	(32)
	115,115	19,627	(102)	117
Purchases of reserves in place	—	—	90	15
Sales of reserves in place	(77,196)	—	—	(77)
Probable Reserves December 31	263,407	29,343	1,162	486
Royalty Interest included in above at December 31	6,761	643	119	27

- (1) Reserves estimates were calculated by the Company's engineers, except for the Company's share of reserves held in Petrovera Resources, which were calculated by Ryder Scott Company Petroleum Consultants.
- (2) Proven reserves are those quantities of crude oil, natural gas, and NGL which geological and engineering data demonstrate with reasonable certainty to be recoverable from known crude oil and natural gas reservoirs under existing economic and operating conditions.
- (3) Probable reserves are those additional quantities estimated to be recoverable from known crude oil and natural gas reservoirs, but which lack, for various reasons, the certainty required to classify the reserves as proven. Probable reserves are as likely as not to be recovered.
- (4) The costs required to develop proven undeveloped reserves are estimated at \$680 million, including \$185 million in the United States. None of the undeveloped reserves relate to the United Kingdom. No proven reserves have been booked for PanCanadian's interest in offshore Nova Scotia in Atlantic Canada and the Gulf of Mexico.
- (5) The following reserves are included in the above:

	Conventional Crude Oil	Natural Gas Liquids	Natural Gas	Total
	(mbbl)	(mbbl)	(bcf)	(mmboe)
United States				
Proven Reserves December 31	5,257	18,784	295	73
Probable Reserves December 31	29,300	23,715	334	109
United Kingdom				
Proven Reserves December 31	20,600	862	7	23
Probable Reserves December 31	135,004	—	—	135

HISTORICAL QUARTERLY INFORMATION

The following tables set out daily average production volume, average net product price received, netback calculations and capital spending for each quarter of 2001 and 2000.

QUARTERLY INFORMATION — 2001	First	Second	Third	Fourth
Daily average production volume (before royalties)				
Conventional crude oil (bbls)	103,587	98,188	105,406	100,680
Field natural gas liquids (bbls)	12,419	11,964	12,322	13,213
Natural gas (mmcf)	1,029	1,056	1,049	1,077
Netbacks				
<i>Western Basin Conventional Light Medium Crude Oil (\$/bbl)</i>				
Average product price received	30.86	30.54	32.99	18.71
Hedging	(1.74)	(0.79)	(0.36)	7.34
	<u>29.12</u>	<u>29.75</u>	<u>32.63</u>	<u>26.05</u>
Royalties and similar payments	3.37	5.41	4.11	3.60
Operating expenses	6.55	7.10	6.40	5.75
	<u>9.92</u>	<u>12.51</u>	<u>10.51</u>	<u>9.35</u>
Netback	<u>19.20</u>	<u>17.24</u>	<u>22.12</u>	<u>16.70</u>
<i>Western Basin Heavy Oil (\$/bbl)</i>				
Average product price received	14.70	16.93	24.52	11.64
Royalties and similar payments	1.94	2.25	3.16	1.79
Operating expenses	8.63	11.45	7.84	9.78
	<u>10.57</u>	<u>13.70</u>	<u>11.00</u>	<u>11.57</u>
Netback	<u>4.13</u>	<u>3.23</u>	<u>13.52</u>	<u>0.07</u>
<i>Western Basin Field Natural Gas Liquids (\$/bbl)</i>				
Average net product price received	38.91	34.05	27.85	20.94
Royalties and similar payments	1.27	2.00	1.66	0.46
Netback	<u>37.64</u>	<u>32.05</u>	<u>26.19</u>	<u>20.48</u>
<i>Western Basin Natural Gas (\$/mcf)</i>				
Average product price received	10.02	6.38	3.52	3.11
Hedging	(1.23)	0.38	1.97	0.98
	<u>8.79</u>	<u>6.76</u>	<u>5.49</u>	<u>4.09</u>
Royalties and similar payments	0.73	0.51	0.28	0.33
Operating expenses	0.40	0.48	0.48	0.51
	<u>1.13</u>	<u>0.99</u>	<u>0.76</u>	<u>0.84</u>
Netback	<u>7.66</u>	<u>5.77</u>	<u>4.73</u>	<u>3.25</u>
<i>United Kingdom Conventional Oil (\$/bbl)</i>				
Average product price received	41.18	38.67	33.23	28.71
Hedging	0.08	(2.40)	(1.18)	7.25
	<u>41.26</u>	<u>36.27</u>	<u>32.05</u>	<u>35.96</u>
Operating expenses	4.72	2.82	3.16	6.32
Netback	<u>36.54</u>	<u>33.45</u>	<u>28.89</u>	<u>29.64</u>
Capital Spending (\$ millions)				
Property acquisition (upstream)	0	3	81	3
Exploration	141	161	231	239
Development	191	237	178	320

QUARTERLY INFORMATION — 2000

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Daily average production volume (before royalties)				
Conventional crude oil (bbls)	109,072	107,882	109,268	111,895
Field natural gas liquids (bbls)	12,309	12,116	11,917	13,598
Natural gas (mmcf)	913	899	940	1,041
Netbacks				
<i>Western Basin Light Medium Conventional Crude Oil (\$/bbl)</i>				
Average product price received	35.86	34.67	40.79	34.83
Hedging	(0.61)	(1.41)	(2.39)	(3.61)
	<u>35.25</u>	<u>33.26</u>	<u>38.40</u>	<u>31.22</u>
Royalties and similar payments	3.65	4.29	5.07	4.30
Operating expenses	4.70	4.99	4.98	6.15
	<u>8.35</u>	<u>9.28</u>	<u>10.05</u>	<u>10.45</u>
Netback	<u>26.90</u>	<u>23.98</u>	<u>28.35</u>	<u>20.77</u>
<i>Western Basin Heavy Oil (\$/bbl)</i>				
Average product price received	29.41	29.02	33.20	19.80
Royalties and similar payments	3.58	3.05	3.40	2.98
Operating expenses	7.11	7.59	8.26	9.02
	<u>10.69</u>	<u>10.64</u>	<u>11.66</u>	<u>12.00</u>
Netback	<u>18.72</u>	<u>18.38</u>	<u>21.54</u>	<u>7.80</u>
<i>Western Basin Field Natural Gas Liquids (\$/bbl)</i>				
Average net product price received	29.76	26.68	37.30	38.88
Royalties and similar payments	1.76	1.82	1.57	2.05
Netback	<u>28.00</u>	<u>24.86</u>	<u>35.73</u>	<u>36.83</u>
<i>Western Basin Natural Gas (\$/mcf)</i>				
Average product price received	2.79	3.98	4.96	7.13
Hedging	(0.09)	(0.12)	(0.12)	(0.17)
	<u>2.70</u>	<u>3.86</u>	<u>4.84</u>	<u>6.96</u>
Royalties and similar payments	0.18	0.29	0.27	0.48
Operating expenses	0.35	0.36	0.32	0.40
	<u>0.53</u>	<u>0.65</u>	<u>0.59</u>	<u>0.88</u>
Netback	<u>2.17</u>	<u>3.21</u>	<u>4.25</u>	<u>6.08</u>
<i>United Kingdom Conventional Oil (\$/bbl)</i>				
Average product price received	36.28	38.10	39.46	44.28
Hedging	(3.72)	(9.48)	(13.85)	(15.57)
	<u>32.56</u>	<u>28.62</u>	<u>25.61</u>	<u>28.71</u>
Operating expenses	5.43	3.55	3.86	1.65
Netback	<u>27.13</u>	<u>25.07</u>	<u>21.75</u>	<u>27.06</u>
Capital Spending (\$ millions)				
Property acquisition (upstream)	257	6	4	741
Exploration	91	96	164	224
Development	175	186	199	170

FUTURE COMMITMENTS

Commodity Price Risk Management

The tables set out unrecognized gains (losses) on PanCanadian's corporate risk management activities to December 31, 2001.

Natural Gas

PanCanadian fixed the prices on a portion of its 2002 production. Under these transactions, PanCanadian receives fixed prices and pays floating index prices as follows:

<u>Index</u>	<u>Term</u>	<u>Currency</u>	<u>Price</u>	<u>Volume</u> (mmcf/d)	<u>Unrecognized Gain as at December 31, 2001</u> (\$ millions)
AECO	Jan. 2002 - Oct. 2002	Cdn\$/mcf	5.83	191	125
MALIN	Jan. 2002 - Oct. 2002	US\$/mcf	5.46	14	20
				<u>205</u>	<u>145</u>

The Company has sold call options on 113,600 cubic feet per day of AECO natural gas for the period November 2001 to October 2002 at an average strike price of \$6.05 per thousand cubic feet. The options are accounted for on a mark-to-market basis and included in the carrying amount and fair value of risk management liabilities.

Crude Oil

PanCanadian entered into transactions to fix sales prices on approximately 12,500 barrels per day of Canadian crude oil for the first half of 2002. Under these transactions, PanCanadian receives a fixed United States dollar price and pays floating West Texas Intermediate prices as follows:

	<u>Volume</u> (bbls/d)	<u>Fixed Price</u> (US\$/bbl)	<u>Unrecognized Gain as at December 31, 2001</u> (\$ millions)
January to March 2002	15,000	23.78	8
April to June 2002	10,000	23.57	4
			<u>12</u>

As at February 20, 2002, PanCanadian had not entered into any additional transactions to fix the sales price for its natural gas and crude oil production.

LAND HOLDINGS

As of December 31, 2001, PanCanadian held working interests in approximately 47 million gross acres and 25 million net acres of oil and gas properties. Land holdings in the Western Basin are approximately 12 million gross acres and 10 million net acres, the majority of which are undeveloped holdings in Alberta and Saskatchewan. Landholdings are subject to government regulation.

The following table sets out the developed and undeveloped acreage in which PanCanadian held a working interest as at December 31, 2001.

		As at December 31, 2001					
		Developed		Undeveloped		Total	
		Gross	Net	Gross	Net	Gross	Net
		(thousands of acres)					
Western Basin							
Alberta							
Fee	2,112	1,981	3,050	3,011	5,162	4,992	
Crown	709	545	2,304	1,933	3,013	2,478	
Freehold	101	46	317	290	418	336	
	<u>2,922</u>	<u>2,572</u>	<u>5,671</u>	<u>5,234</u>	<u>8,593</u>	<u>7,806</u>	
British Columbia							
Crown	4	3	223	149	227	152	
Saskatchewan							
Fee	10	9	472	462	482	471	
Crown	130	107	482	465	612	572	
Freehold	38	28	136	130	174	158	
	<u>178</u>	<u>144</u>	<u>1,090</u>	<u>1,057</u>	<u>1,268</u>	<u>1,201</u>	
Manitoba							
Fee	—	—	271	266	271	266	
United States							
Federal/State Lands	182	123	455	316	637	439	
Freehold	519	212	598	291	1,117	503	
Fee	32	9	9	6	41	15	
	<u>733</u>	<u>344</u>	<u>1,062</u>	<u>613</u>	<u>1,795</u>	<u>957</u>	
Total Western Basin							
Canada	3,104	2,719	7,255	6,706	10,359	9,425	
United States	733	344	1,062	613	1,795	957	
	<u>3,837</u>	<u>3,063</u>	<u>8,317</u>	<u>7,319</u>	<u>12,154</u>	<u>10,382</u>	
Other North America							
Newfoundland & Labrador							
Onshore	—	—	87	43	87	43	
Offshore	—	—	3,895	1,952	3,895	1,952	
	<u>—</u>	<u>—</u>	<u>3,982</u>	<u>1,995</u>	<u>3,982</u>	<u>1,995</u>	
Nova Scotia							
Offshore	—	—	4,405	2,461	4,405	2,461	
Northwest Territories, Nunavut and Yukon Territory . .	3	—	846	38	849	38	
United States							
Offshore	—	—	435	207	435	207	
	<u>3</u>	<u>—</u>	<u>9,668</u>	<u>4,701</u>	<u>9,671</u>	<u>4,701</u>	

As at December 31, 2001

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
	(thousands of acres)					
International						
United Kingdom	29	4	1,619	439	1,648	443
Australia	—	—	15,724	5,601	15,724	5,601
Brazil	—	—	1,932	1,488	1,932	1,488
Libya	—	—	1,281	641	1,281	641
Ghana	—	—	1,739	696	1,739	696
Yemen	—	—	2,519	1,236	2,519	1,236
	29	4	24,814	10,101	24,843	10,105
Total	<u>3,869</u>	<u>3,067</u>	<u>42,799</u>	<u>22,121</u>	<u>46,668</u>	<u>25,188</u>

- (1) This table excludes 4,072,588 gross acres under lease or sublease, reserving to PanCanadian royalties or other interests.
- (2) Fee lands are those in which PanCanadian owns mineral rights and in which it retains a working interest.
- (3) Crown / Federal / State lands are those owned by the federal, provincial, or state government or the First Nations, in which PanCanadian has purchased a working interest lease.
- (4) Freehold lands are owned by individuals (other than the Government or PanCanadian), in which PanCanadian holds a working interest lease.
- (5) Net acres are the sum of PanCanadian's fractional interest in gross acres.
- (6) All other North America lands are Crown or federal lands.

ITEM 3 SELECTED CONSOLIDATED FINANCIAL INFORMATION

QUARTERLY INFORMATION

The following table sets forth certain financial information for PanCanadian and its subsidiaries on a consolidated basis for each of the quarters in 2001 and 2000. This information should be read in conjunction with "Management's Discussion and Analysis" and the "Consolidated Financial Statements" and related notes.

	2001				2000			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(\$ millions except as indicated)							
Total assets	9,556	10,406	10,417	10,859	6,690	6,923	7,463	9,042
Long term debt, including current portion	1,014	915	1,069	2,278	1,192	1,057	1,060	1,062
Revenues	3,203	2,764	2,469	1,662	1,395	1,483	1,850	2,599
Cash flow	737	622	561	386	433	478	608	784
Per share — basic (\$)	2.89	2.43	2.19	1.51	1.72	1.90	2.40	3.09
Net income attributable to common shareholders	494	431	285	90	184	212	296	342
Per share — basic (\$)	1.94	1.69	1.11	0.35	0.73	0.84	1.17	1.35
Dividends per share (\$)	0.10	0.10	4.70	0.10	0.10	0.10	0.10	0.10

ANNUAL INFORMATION

The following table sets forth certain financial information for PanCanadian and its subsidiaries on a consolidated basis for the years ended December 31, 2001, 2000 and 1999. This information should be read in conjunction with “Management’s Discussion and Analysis” and the “Consolidated Financial Statements” and related notes.

	December 31		
	2001	2000	1999
	(\$ millions except as indicated)		
Total assets	10,859	9,042	6,384
Long term debt, including current portion	2,278	1,062	1,111
Revenues	10,098	7,327	3,941
Cash flow	2,306	2,303	1,110
Per share — basic (\$)	9.02	9.11	4.41
Net income attributable to common shareholders	1,300	1,034	346
Per share — basic (\$)	5.09	4.09	1.38
Dividends per share (\$)	5.00	0.40	0.40

DIVIDEND POLICY

The Company has paid dividends on its common shares in each year since 1961. Dividends have been paid on a quarterly basis since March 30, 1980 and are currently paid at a quarterly rate of \$0.10 per share. As part of the CPL Reorganization, a special dividend of \$4.60 per share was paid to shareholders in 2001. In 2002, it is anticipated that quarterly dividends will be paid. While the Company intends to continue paying quarterly dividends on its common shares, the amount of the dividends will be determined by the Board of Directors in light of earnings, capital requirements and the financial condition of the Company.

ITEM 4 MANAGEMENT’S DISCUSSION AND ANALYSIS

Management’s Discussion and Analysis for the year ended December 31, 2001, accompanying the 2001 audited consolidated financial statements, is incorporated by reference in this Annual Information Form.

ITEM 5 MARKET FOR SECURITIES

The common shares of PanCanadian are listed and posted for trading on The Toronto Stock Exchange under the symbol PCE and on the New York Stock Exchange under the symbol PCX.

ITEM 6 DIRECTORS AND OFFICERS

The following are the names and municipalities of residence of the directors and officers of PanCanadian, their positions with PanCanadian and principal occupations within the past five years and the period during which each director has served as a director.

DIRECTORS OF PANCANADIAN

Name and Municipality of Residence	Position Held and Principal Occupation ⁽¹⁾	Served as a Director Since
Dian Cohen ⁽²⁾ Ayers Cliff, Quebec	President, Dian Cohen Productions Ltd. (private economic and communications consulting firm)	1989
Patrick D. Daniel ⁽²⁾ Calgary, Alberta	President & Chief Executive Officer, Enbridge Inc. (energy, transportation and services)	2001
William R. Fatt ⁽²⁾⁽⁷⁾ Toronto, Ontario	Chief Executive Officer, Fairmont Hotels & Resorts Inc. (hotels)	1995
Michael A. Grandin ⁽⁵⁾⁽⁸⁾ . . . Calgary, Alberta	President of PanCanadian	1998
Barry W. Harrison ⁽²⁾⁽³⁾⁽⁶⁾ . . . Calgary, Alberta	Corporate Director and independent businessman	1996
Ken F. McCready ⁽³⁾⁽⁵⁾⁽⁹⁾ . . . Calgary, Alberta	President, K.F. McCready & Associates Ltd. (a sustainable energy development consulting company)	1992
David P. O'Brien ⁽⁴⁾⁽⁵⁾ Calgary, Alberta	Chairman & Chief Executive Officer of PanCanadian	1990
Dennis A. Sharp ⁽⁴⁾⁽⁶⁾ Calgary, Alberta	Chairman & Chief Executive Officer, UTS Energy Corporation (oil and gas company)	1998
James M. Stanford ⁽³⁾⁽⁶⁾ Calgary, Alberta	President, Stanford Resource Management Inc. (investment management, primarily in oil and gas exploration and production)	2001
William W. Stinson ⁽⁴⁾ Calgary, Alberta	Corporate Director	1984

(1) Each of the directors has been engaged in the principal occupation indicated above for the five preceding years except for: Patrick D. Daniel who was President and Chief Operating Officer of Interprovincial Pipe Line Company from May 1994 to January 2001; Michael A. Grandin who was Executive Vice President and Chief Financial Officer of Canadian Pacific Limited from December 1997 to October 2001 and who was Vice Chairman and Director of Midland Walwyn Capital Inc. from October 1996 to November 1997 and has been a director of Enerflex Systems Ltd. since August 1998; William R. Fatt who was Chairman and Chief Executive Officer of Canadian Pacific Hotels & Resorts Inc. from December 1997 to October 2001 and who was Executive Vice President and Chief Financial Officer of Canadian Pacific Limited from January 1994 to December 1997; Barry W. Harrison who was President of Black Sea Energy Ltd. from February 1998 to August 1998; President of Quest Oil & Gas Inc. from October 1996 to April 1997, and a Managing Director of Goepel Shields & Partners Inc. from April 1996 to October 1996; David P. O'Brien who was Chairman, President and Chief Executive Officer of Canadian Pacific Limited from May 1996 to October 2001; Dennis A. Sharp who was Chairman and Chief Executive Officer of CS Resource Management Inc. from October 1982 to 1997, Chairman and Chief Executive Officer of CS Resources Limited from January 1984 to July 1997, and Chairman and Chief Executive Officer of UTS Energy Corporation from February 1998 to current; James M. Stanford who was President and Chief Executive Officer of Petro-Canada from January 1993 to January 2000; and William W. Stinson who was Chairman and Chief Executive Officer of Canadian Pacific Limited from May 1990 to May 1996.

(2) Member of Audit Committee.

(3) Member of Human Resources Management and Compensation Committee.

(4) Member of Corporate Governance and Nominating Committee.

(5) Member of Executive Committee.

(6) Member of Reserves Committee.

(7) Mr. Fatt was a director of Unitel Communications Inc. in 1995 when it filed pursuant to the *Companies' Creditors Arrangement Act* (Canada).

(8) Mr. Grandin was a director of Pegasus Gold Inc. in 1998 when that company filed voluntarily to reorganize under Chapter 11 of the *Bankruptcy Code* (United States). A liquidation plan for that company received court confirmation later that year.

(9) Mr. McCready is a director of Colonia Corporation, which company was placed into receivership in October 2000. The company came out of receivership in October 2001.

The term of office of each of the directors named above ends upon the earlier of the effective date of the Arrangement and the close of the next annual meeting of shareholders of the Company, or until his or her successor is duly elected or appointed. If the Arrangement becomes effective, the directors shall be those persons named in the Joint Management Information Circular dated February 22, 2002 of the Company and AEC relating to the Arrangement.

OFFICERS OF PANCANADIAN

<u>Name and Municipality of Residence</u>	<u>Position held⁽¹⁾</u>
David P. O'Brien Calgary, Alberta	Chairman & Chief Executive Officer
Michael A. Grandin Calgary, Alberta	President
David J. Boone Calgary, Alberta	Executive Vice President & Chief Operating Officer
Wesley R. Twiss Calgary, Alberta	Executive Vice President & Chief Financial Officer
Gerald J. Macey Calgary, Alberta	Executive Vice President, Exploration & Chief Technology Officer
Nancy M. Laird Calgary, Alberta	Senior Vice President Marketing & Midstream & Chief Environmental Officer
Gerard J. Protti Calgary, Alberta	Senior Vice President New Ventures
Tom M. Collins Calgary, Alberta	Senior Vice President & Chief Information Officer
Terence M. Lawrence Calgary, Alberta	Vice President Production
Larry P. LeBlanc Halifax, Nova Scotia	Vice President East Coast Operations
Sheila M. McIntosh Calgary, Alberta	Vice President Investor Relations
Robert A. Pearce Calgary, Alberta	General Manager & Treasurer
Christopher Saunders Calgary, Alberta	General Manager & Comptroller
Laurie J. Schuller Calgary, Alberta	General Counsel & Corporate Secretary

(1) All of the officers listed above have been engaged by the Company at their current occupations or in other capacities for the last five years, except for: David P. O'Brien who was Chairman, President and Chief Executive Officer of Canadian Pacific Limited from May 1996 to October 2001; Michael A. Grandin who was Executive Vice President and Chief Financial Officer of Canadian Pacific Limited from December 1997 to October 2001 and who was Vice Chairman and Director of Midland Walwyn Capital Inc. from October 1996 to November 1997 and has been a director of Enerflex Systems Ltd. since August 1998; David J. Boone who was Business Development Manager for West Africa at Exxon Upstream Development Company from October 1998 to February 2000, and prior thereto held various positions within Imperial Oil Limited; Wesley R. Twiss who was Executive Vice President and Chief Financial Officer of Petro-Canada from 1998 to January 2000, and prior thereto, Executive Vice President of Petro-Canada; Nancy M. Laird who was President of NrG Information Services Inc. from August 1994 to April 1997; Tom M. Collins who was Chief Information Officer of CP Ships Inc. from March 1999 to August 2001 and prior thereto was General Manager, Information Technology of PanCanadian; and Sheila McIntosh who was Vice President, Corporate Communications and Investor Relations at Canadian Pacific Limited from February 1997 to October 2001.

If the Arrangement becomes effective, the officers shall be those persons named in the Joint Information Circular dated February 22, 2002 of the Company and AEC relating to the Arrangement.

SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of February 20, 2001, the Directors and Officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over 128,682 common shares, representing 0.05% of the outstanding common shares of the Company.

ITEM 7 ADDITIONAL INFORMATION

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of PanCanadian's securities, options to purchase securities and interest of insiders in material transactions, where applicable, is contained in PanCanadian's Management Proxy Circular dated February 22, 2001, which relates to the Annual and Special Meeting of Shareholders to be held on April 4, 2002. Additional financial information is provided in PanCanadian's consolidated comparative audited financial statements and notes thereto for the year ended December 31, 2001.

When the securities of PanCanadian are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities, copies of the following documents may be obtained by contacting:

The Corporate Secretary
PanCanadian Energy Corporation
P.O. Box 2850
Calgary, Alberta T2P 2S5

Telephone (403) 290-3201
Facsimile (403) 290-3499

- (1) one copy of PanCanadian's Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
- (2) one copy of PanCanadian's comparative consolidated financial statements for its most recently completed financial year, together with the accompanying auditors' report and one copy of any interim consolidated financial statements of PanCanadian filed subsequent to its most recently completed financial year;
- (3) one copy of PanCanadian's most recent Management Proxy Circular; and
- (4) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus and are not required to be provided under paragraphs (1), (2) or (3) above.

At any other time, copies of the documents referred to in paragraphs (1) to (4) above may be obtained upon request from the Corporate Secretary, provided that, if the request is made by a person who is not a shareholder of PanCanadian, payment of a reasonable charge for such copies may be required.

PanCanadian Energy Corporation

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**For the Year Ended December 31, 2001
Compared to Years Ended
December 31, 2000 and December 31, 1999**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE
YEARS ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999

The following "Management's Discussion and Analysis" accompanies the "Consolidated Financial Statements" and related notes for the year ended December 31, 2001.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Financial Results (millions)			
Revenues	\$10,098	\$7,327	\$3,941
Net income	\$ 1,304	\$1,039	\$ 350
Cash flow	\$ 2,306	\$2,303	\$1,110
Capital expenditures (excluding acquisitions and dispositions)	\$ 1,946	\$1,415	\$ 825
Upstream Activities			
Upstream income (millions)	\$ 1,908	\$1,646	\$ 524
Production			
Natural gas (million cubic feet per day)	1,053	949	848
Crude oil and field liquids (thousand barrels per day)	114	122	113
Barrels of oil equivalent (thousand barrels per day)	290	280	254
Operations			
Proven reserve additions (million barrels of oil equivalent)	125	163	144
Finding and development costs Western Basin (per barrel of oil equivalent)	\$ 10.40	\$ 6.47	\$ 4.55
Capital expenditures (millions)	\$ 1,771	\$1,322	\$ 807
Marketing and Midstream Activities			
Marketing and Midstream income (millions)	\$ 113	\$ 129	\$ 41
Total BTUs marketed (thousand MMBTUs per day)	4,643	3,749	3,547
Natural gas liquids production (thousand barrels per day)	26	29	27
Capital expenditures (millions)	\$ 175	\$ 93	\$ 18

BUSINESS ENVIRONMENT

The first part of 2001 was characterized by strong energy prices, particularly for natural gas. In the second half of 2001, prices weakened as demand was adversely affected by a global economic slowdown, which was accelerated by the terrorist attacks in the United States, as well as unusually cool summer and warm winter weather. By contrast, 2000 witnessed a sharp rise in energy prices as global economic expansion combined with production restraint by OPEC and limited availability of new supplies of natural gas.

Natural gas prices remained above historical levels throughout most of 2001. The average AECO index price for 2001 was \$6.56 per thousand cubic feet, up 25 percent from \$5.24 per thousand cubic feet in the prior year. However by the last quarter of 2001, the average AECO index price softened to \$3.44 per thousand cubic

feet from \$7.75 per thousand cubic feet in the fourth quarter of 2000 and \$11.37 per thousand cubic feet in the first quarter of 2001. In 2001, the AECO index price continued to be strong relative to NYMEX prices.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(per thousand cubic feet)		
Average AECO Price			
Quarter 1	\$11.37	\$3.30	\$2.57
Quarter 2	7.38	4.41	2.78
Quarter 3	4.10	5.49	3.28
Quarter 4	3.44	7.75	3.71
Annual	<u>\$ 6.56</u>	<u>\$5.24</u>	<u>\$3.09</u>

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(US\$ per million British thermal unit)		
Average NYMEX Price			
Quarter 1	\$7.09	\$2.52	\$1.75
Quarter 2	4.67	3.47	2.14
Quarter 3	2.88	4.27	2.59
Quarter 4	2.45	5.29	2.59
Annual	<u>\$4.27</u>	<u>\$3.89</u>	<u>\$2.27</u>

The West Texas Intermediate (WTI) crude oil price averaged US\$25.95 per barrel in 2001, compared with US\$30.26 per barrel in 2000. Averaging US\$28.67 per barrel in the first quarter of 2001, the WTI crude oil price weakened throughout 2001 to an average of US\$20.53 per barrel in the fourth quarter of 2001 as a slowing economy led to lower crude oil demand.

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(US\$ per barrel)		
WTI Average			
Quarter 1	\$28.67	\$28.82	\$13.17
Quarter 2	27.98	28.77	17.67
Quarter 3	26.60	31.58	21.71
Quarter 4	20.53	31.90	24.51
Annual	<u>\$25.95</u>	<u>\$30.26</u>	<u>\$19.30</u>

Dated Brent crude oil, a pricing benchmark for the Company's production from the United Kingdom Central North Sea, traded at an average differential of approximately US\$1.60 per barrel below WTI prices in 2001 and 2000. Transportation costs accounted for most of this differential.

	<u>2001</u>	<u>2000</u>
	(US\$ per barrel)	
Dated Brent at North Sea Average		
Quarter 1	\$25.79	\$26.93
Quarter 2	27.38	26.89
Quarter 3	25.28	30.43
Quarter 4	19.42	29.67
Annual	<u>\$24.44</u>	<u>\$28.50</u>

The Company's production includes a portion of heavier crude oil, which requires more processing than light/medium crude oil and thus receives a lower price. A wider than normal differential between heavier and

lighter crude oil prices persisted for most of 2001. The full year average for the WTI-Bow River differential was up to US\$9.87 per barrel from US\$7.12 per barrel in 2000, despite a narrowing in the differential in the latter part of the year.

	2001	2000	1999
	(US\$ per barrel)		
WTI — Bow River Differential			
Quarter 1	\$11.87	\$ 4.63	\$2.19
Quarter 2	10.94	4.70	3.85
Quarter 3	7.16	5.66	3.17
Quarter 4	9.52	13.50	4.75
Annual	<u>\$ 9.87</u>	<u>\$ 7.12</u>	<u>\$3.49</u>

Following the trend in crude oil pricing, natural gas liquids (NGL) prices in 2001 were weaker than 2000 levels, but stronger than 1999 levels.

The US/Canadian dollar exchange rate experienced an up and down year in 2001 because of changing interest rate spreads and softening commodity prices. However, the trend in the year led the Canadian dollar lower. The Canadian dollar averaged US\$0.646 in 2001, down from US\$0.673 in 2000 and 1999. The year-end exchange rates were US\$0.628 in 2001, US\$0.667 in 2000 and US\$0.692 in 1999.

CONSOLIDATED FINANCIAL RESULTS OVERVIEW

PanCanadian's net income was a record \$1,304 million in 2001, up 26 percent from \$1,039 million in 2000 and up 272 percent from \$350 million in 1999. Earnings per common share were \$5.09 in 2001, compared with \$4.09 in 2000 and \$1.38 in 1999. These results produced returns on average shareholders' equity of 32 percent in 2001, 29 percent in 2000 and 12 percent in 1999, and returns on average capital employed of 24 percent in 2001 and 2000, and 10 percent in 1999.

Cash flow held a record level at \$2,306 million, or \$9.02 per common share, in 2001, compared with \$2,303 million, or \$9.11 per common share, in 2000 and \$1,110 million, or \$4.41 per common share, in 1999. A strong cash flow in 2001 and 2000 enabled the Company to fund its exploration and development spending in the Western Basin, North American frontier and international regions, complete three strategic acquisitions and pay a special dividend of \$1,180 million associated with the reorganization of Canadian Pacific Limited (CPL). The Company maintained a solid financial position. At year-end 2001, debt of \$2,278 million represented 36 percent of debt plus equity and cash on hand was \$963 million. The healthy balance sheet and record cash flow generated strong credit ratings and good liquidity.

The Company's revenues were \$10,098 million in 2001, up \$2,771 million, or 38 percent, over 2000 and up \$6,157 million, or 156 percent, over 1999. The revenue increases were due principally to increased marketing activities, better natural gas prices and higher natural gas production.

Income from Upstream Activities was \$1,908 million in 2001, up \$262 million from \$1,646 million in 2000 and up \$1,384 million from \$524 million in 1999. Marketing and Midstream Activities' income was \$113 million in 2001, \$129 million in 2000 and \$41 million in 1999.

REVIEW OF RESULTS

UPSTREAM ACTIVITIES

Financial Results

	2001				2000				1999			
	Natural Gas	Crude Oil	Field NGL & Other	Total	Natural Gas	Crude Oil	Field NGL & Other	Total	Natural Gas	Crude Oil	Field NGL & Other	Total
	(millions)											
Revenues												
Production	\$2,380	\$1,022	\$152	\$3,554	\$1,622	\$1,296	\$172	\$3,090	\$781	\$795	\$78	\$1,654
Royalties and similar payments	(175)	(122)	(6)	(303)	(107)	(145)	(7)	(259)	(42)	(92)	(4)	(138)
	2,205	900	146	3,251	1,515	1,151	165	2,831	739	703	74	1,516
Expenses												
Direct operating*	191	254	—	445	132	235	—	367	114	218	—	332
Operating margin	\$2,014	\$ 646	\$146	\$2,806	\$1,383	\$ 916	\$165	\$2,464	\$625	\$485	\$74	\$1,184
Administrative				70				65				55
Depletion, depreciation and amortization				828				753				605
Upstream income				\$1,908				\$1,646				\$ 524

* Direct operating expenses for field NGL are commingled with natural gas expenses.

Revenue Variances

	2001 compared to 2000			2000 compared to 1999		
	Price	Volume	Total	Price	Volume	Total
	(millions)					
Natural gas	\$ 584	\$174	\$ 758	\$ 747	\$ 94	\$ 841
Crude oil	(182)	(92)	(274)	442	59	501
Field NGL and other	(13)	(7)	(20)	76	18	94
Total production revenue	\$ 389	\$ 75	\$ 464	\$1,265	\$171	\$1,436

Unit Operating Expenses

	2001	2000	1999
	(\$ per unit)		
Natural gas and field liquids (per thousand cubic feet)*	\$0.50	\$0.38	\$0.34
Crude oil (per barrel)	7.67	6.54	6.44
Per barrel of oil equivalent**	4.64	3.96	3.86

* Field liquids converted to natural gas at 1 barrel = 6 thousand cubic feet.

** Natural gas converted to barrel of oil equivalent at 6 thousand cubic feet = 1 barrel of oil equivalent.

Natural Gas

Consolidated results improved in 2001 and 2000 due chiefly to a higher contribution from upstream natural gas activities. Income benefited from increased natural gas production that was ramped up to capture the benefits of better market prices in each year. The increased production stemmed from The Montana Power Company (Montana Power) and Causeway Energy Corporation (Causeway) acquisitions as well as an aggressive drilling program that exploited the Company's extensive shallow and deeper natural gas reserves. In addition, revenues from upstream natural gas activities included a favourable effect from hedging activities of \$208 million, or 54 cents per thousand cubic feet, in 2001. This contrasted with costs of \$43 million, or 12 cents

per thousand cubic feet, in 2000 and \$32 million, or 12 cents per thousand cubic feet, in 1999. The operating margin on upstream natural gas activities increased to \$2,014 million in 2001 from \$1,383 million in 2000 and \$625 million in 1999.

Records for production were set in each year, with production averaging 1,053 million cubic feet per day in 2001, 11 percent ahead of 2000 and 24 percent better than in 1999. The Company drilled 1,540 gross working interest natural gas wells in 2001, compared with 1,793 wells in 2000 and 1,275 wells in 1999. Virtually all of these wells were drilled in the Western Basin.

The Company successfully completed acquisitions that will allow it to use its operating expertise in shallow and medium-depth natural gas exploration to increase production and reserves from underexploited lands, which are geologically similar to its own natural gas-prone lands. The acquired assets also leverage on the Company's infrastructure in southern Alberta by adding further acreage in that area as well as in Saskatchewan, Montana, Wyoming, Colorado and Oklahoma. Effective October 31, 2000, the Company completed the purchase of the exploration, production, midstream and marketing assets of Montana Power for \$689 million. This acquisition, the largest in the Company's history, added 1.2 million net acres of land, half of which were undeveloped, and approximately 110 million barrels of oil equivalent of proved and one-half probable reserves. Natural gas production from these assets at the time of acquisition was approximately 94 million cubic feet per day. In August 2001, the Company acquired Causeway, a junior oil and gas company with operations in northern Montana and southwest Saskatchewan, for \$65 million and the assumption of \$4 million of debt. The acquisition added approximately 210,000 net acres of undeveloped land. At the time of acquisition, natural gas production was nominal and the area had reserves of over 13 million barrels of oil equivalent on a proven and one-half probable basis.

In 2002, the Company is poised to continue its aggressive pace of exploitation of its natural gas assets in the Western Basin. While the Palliser lands encompass a large inventory of prospects, the Company also expects to aggressively grow its production from the Montana Power and Causeway assets. The Company acquired extensive seismic data in 2001 to support a much larger program than previously undertaken on these lands. The Company also continues to be focused on generating exploration prospects and establishing production from the deeper horizons of the Western Basin, a vast source of untapped natural gas potential. The Company's natural gas strategy will also include longer-term initiatives for commercial development of coal bed methane and development of the Deep Panuke discovery.

Western Basin Natural Gas

	2001		2000		1999	
	Volume	Daily Average	Volume	Daily Average	Volume	Daily Average
			(million cubic feet)			
Production						
Working interest	337,750	926	301,331	824	272,594	746
Royalty interest	43,215	118	42,545	116	37,032	102
	<u>380,965</u>	<u>1,044</u>	<u>343,876</u>	<u>940</u>	<u>309,626</u>	<u>848</u>
	<u>Amount</u>	<u>Per Unit</u>	<u>Amount</u>	<u>Per Unit</u>	<u>Amount</u>	<u>Per Unit</u>
	(millions)	(per mcf)	(millions)	(per mcf)	(millions)	(per mcf)
Revenues (excluding hedging)						
Working interest	\$ 1,931	\$ 5.72	\$ 1,476	\$ 4.90	\$ 727	\$ 2.66
Royalty interest	237	5.48	177	4.17	86	2.33
Operating expenses	(191)	(0.47)	(132)	(0.36)	(114)	(0.34)
Royalties and similar payments	<u>(175)</u>	<u>(0.46)</u>	<u>(107)</u>	<u>(0.32)</u>	<u>(42)</u>	<u>(0.14)</u>
Operating margin	<u>\$ 1,802</u>	<u>\$ 4.77</u>	<u>\$ 1,414</u>	<u>\$ 4.13</u>	<u>\$ 657</u>	<u>\$ 2.16</u>

Western Basin: The operating margin on natural gas activities in the Western Basin of \$1,802 million in 2001 was up \$388 million, or 27 percent, over 2000, and \$1,145 million, or 174 percent, over 1999 chiefly because of higher natural gas prices and increased natural gas production. Daily production averaged 1,044 million cubic feet in 2001, up 11 percent from 2000 and 23 percent from 1999. The increase in natural gas production mainly reflected higher production from natural gas properties acquired in 2001 and 2000 together with a successful drilling program. The average received price for natural gas of \$5.70 per thousand cubic feet in 2001 was up 19 percent from \$4.81 per thousand cubic feet in 2000 and up 114 percent from \$2.64 per thousand cubic feet in 1999.

Direct operating expenses per thousand cubic feet rose to 47 cents in 2001 compared with 36 cents in 2000 and 34 cents in 1999. Factors underlying the rise in the unit costs were increased downhole, maintenance, lease and electricity costs. The increased maintenance expense in 2001 partially reflected a compressor maintenance program in the first half of 2001 that was designed to improve service factors for natural gas facilities. An aggressive cost management program is being pursued to control all categories of operating costs.

The increase in costs per unit of production for royalty and similar payments over the 1999 to 2001 period mainly related to higher natural gas prices and the impact of the sliding scale rate structure as the pricing environment strengthened. In addition, the unit costs in 2001 and 2000 were affected by U.S. production taxes on the revenues associated with the Montana Power assets acquired in the fourth quarter of 2000. Royalties and similar payments were approximately eight percent of natural gas revenues in 2001, compared with six percent in 2000 and five percent in 1999. The relatively low rates reflect the Company's large production base on fee lands in Western Canada where only mineral taxes are due. Royalty costs are expected to increase as production on non-fee lands becomes a larger proportion of total production.

The Company realized natural gas transmission savings of approximately \$22 million in 2001, compared with \$24 million in 2000 and \$23 million in 1999, from the specially negotiated Load Retention Service (LRS) rates on the NOVA system. The toll rate of 16.4 cents per thousand cubic feet in 2001, versus 16.1 cents in 2000 and 15.8 cents in 1999, is applicable to 602 million cubic feet per day of the Company's capacity in southern Alberta. The LRS rates on the NOVA system began in 1998 and continued savings are expected for a period of up to 16 years. The Alberta Energy and Utilities Board approved a distance-based tolling system for the transportation of natural gas on the NOVA system, which was phased in starting April 1, 2000. The revised tolls more closely reflect the actual cost of transporting natural gas through the system from different locations and further reduce the Company's natural gas transportation costs in southern Alberta for those volumes not subject to LRS.

United Kingdom: Production from the Scott and Telford fields is primarily crude oil. However, the Company's natural gas revenues included \$4 million in 2001 and \$12 million in 2000 from its share of production, which was approximately nine million cubic feet per day in 2001 and 2000 at these fields.

Crude Oil

The contribution from upstream crude oil activities was adversely affected by lower realized prices in 2001, following a strong performance in 2000 when crude oil market prices reached a 10-year high. Crude oil production in the Western Basin declined in both 2001 and 2000. This reflected a shift in the Company's crude oil strategy to focus on light crude oil projects internationally and non-conventional crude oil projects in the Western Basin that are expected to bring on significant volumes in later years. The operating margin on upstream crude oil activities was \$646 million in 2001, compared with \$916 million in 2000 and \$485 million in 1999. Commodity and currency hedging increased crude oil revenues by \$31 million, or 84 cents per barrel in 2001, versus reductions of \$100 million, or \$2.49 per barrel, in 2000 and \$40 million, or \$1.06 per barrel, in 1999.

Daily production of crude oil averaged 102,000 barrels in 2001, down seven percent from 109,500 barrels in 2000 but essentially unchanged from 102,300 barrels in 1999. The decline in crude oil production in the Western Basin was partially offset by the purchase, effective early in 2000, of interests in the Scott and Telford fields in the United Kingdom Central North Sea for approximately \$259 million.

In 2002, the Company's crude oil strategy is expected to continue with a focus on optimizing the management of its core properties in the Western Basin. The SAGD heavy crude oil project at Christina Lake

Western Basin Crude Oil

The variances in royalty costs over the same period principally stemmed from the crude oil price trends and the effect of the sliding scale rate structure in different price environments. In addition, royalties and similar payments were higher in 2001 because of the sale of an 11.7 percent net royalty interest in the Weyburn unit in

the fourth quarter of 2000. Royalties and similar payments were approximately 14 percent of crude oil revenues in 2001, compared with 12 percent in 2000 and 11 percent in 1999.

United Kingdom Crude Oil

	2001		2000	
	Volume	Daily Average (thousand barrels)	Volume	Daily Average
Production	<u>3,950</u>	<u>10.8</u>	<u>4,324</u>	<u>11.8</u>
	Amount	Per Unit	Amount	Per Unit
	(millions)	(per barrel)	(millions)	(per barrel)
Revenues (excluding hedging)	\$ 140	\$35.45	\$ 169	\$39.49
Operating expenses	<u>(17)</u>	<u>(4.18)</u>	<u>(23)</u>	<u>(3.65)</u>
Operating margin	<u>\$ 123</u>	<u>\$31.27</u>	<u>\$ 146</u>	<u>\$35.84</u>

United Kingdom: In 2001, the operating margin on the Company's crude oil operations in the United Kingdom Central North Sea was \$123 million, down from \$146 million in 2000. Production was down eight percent to 10,800 barrels per day and the average received price declined 10 percent to \$35.45 per barrel. Production costs increased 15 percent to \$4.18 per barrel in 2001 from \$3.65 per barrel in 2000. The consolidated future tax provision included Petroleum Revenue Tax of approximately \$3 million in both 2001 and 2000.

East Coast: Production from Cohasset-Panuke (COPAN) ceased in December 1999. After successfully extending the life of the field through efficient management of the reservoir and introduction of leading-edge technology, production was ceased at the Company's first commercial offshore crude oil project. However, this initial presence provided a springboard to consolidating a strong land position and significant exploration success in the region. Production was 3,200 barrels per day in 1999.

Field Natural Gas Liquids

Certain field facilities have the ability to extract NGL from the Company's natural gas production. Therefore, NGL production volumes vary with natural gas production, and reflect the composition of the natural gas and the efficiency of the recovery process that separates the NGL from the output of the natural gas wells. As well, volumes extracted may vary with the value of NGL relative to natural gas. The market price of NGL components is generally related to crude oil prices, but is also affected by end-use demand, and regional supply and demand factors. Income from field NGL activities, and to a lesser extent other activities such as lease rentals, amounted to \$146 million in 2001, \$165 million in 2000 and \$74 million in 1999.

Western Basin Field Natural Gas Liquids

	2001		2000		1999	
	Volume	Daily Average	Volume	Daily Average	Volume	Daily Average
	(thousand barrels)					
Production						
Working interest	3,551	9.7	3,081	8.4	2,857	7.8
Royalty interest	807	2.2	1,172	3.2	1,046	2.9
	<u>4,358</u>	<u>11.9</u>	<u>4,253</u>	<u>11.6</u>	<u>3,903</u>	<u>10.7</u>
	<u>Amount</u>	<u>Per Unit</u>	<u>Amount</u>	<u>Per Unit</u>	<u>Amount</u>	<u>Per Unit</u>
	(millions)	(per barrel)	(millions)	(per barrel)	(millions)	(per barrel)
Revenues (excluding hedging)						
Working interest	\$ 108	\$30.35	\$ 102	\$33.05	\$ 48	\$16.71
Royalty interest	24	30.28	39	33.31	17	15.77
Royalties and similar payments	(6)	(1.34)	(7)	(1.81)	(4)	(0.95)
Net revenue*	<u>\$ 126</u>	<u>\$29.00</u>	<u>\$ 134</u>	<u>\$31.33</u>	<u>\$ 61</u>	<u>\$15.51</u>

* Operating expenses for field NGL are commingled with natural gas expenses.

Western Basin: The net revenue from field NGL in the Western Basin was \$126 million in 2001, compared with \$134 million in 2000 and \$61 million in 1999. Average realized prices were down eight percent to \$30.34 per barrel in 2001 after increasing 101 percent to \$33.12 per barrel in 2000. The price trend reflected the general trend in crude oil prices over the period.

Average daily production of NGL increased, up three percent to 11,900 barrels in 2001 and eight percent to 11,600 barrels in 2000, primarily because of higher natural gas production. However, NGL production increased at a lower rate of growth than natural gas production. In certain periods, the relative value for natural gas was higher than that for NGL and the Company sold the natural gas without extracting the NGL.

Royalty costs from 1999 to 2001 reflected the trend in NGL prices as well as the impact of the sliding scale rate structure in a high price environment.

United Kingdom: Field NGL volumes in 2001 and 2000 averaged 540 barrels per day and 870 barrels, respectively, from the Scott and Telford fields. Total revenues were \$5 million, or \$25.62 per barrel, in 2001, and \$10 million, or \$32.36 per barrel, in 2000.

Offshore North America Exploration Activity

Exploring and developing its landholdings in the Western Basin provided most of the Company's production growth, but the Company has added production from, and sought opportunities in, other basins. Through the efforts of its Frontier and International business unit, the Company has established itself as one of the largest landholders offshore the East Coast of Canada, which has substantial reserve potential and close proximity to the large Northeast U.S. market where there is strong demand for natural gas. The Company also established a key core growth platform in the Gulf of Mexico where it is building substantial reserves and a production base through successful exploration.

In 1999, the Company had a major discovery at its wholly-owned Deep Panuke natural gas field located under the depleted COPAN field about 250 kilometres southeast of Halifax. The discovery well and two subsequent appraisal wells each flowed at rates of more than 50 million cubic feet per day, while a third appraisal well flowed at more than 60 million cubic feet per day. The rates of flow were limited by the capacity of the testing equipment. The Company currently estimates recoverable reserves of one trillion cubic feet. In 2001, the Company decided to proceed with commercial development of the \$1-billion project and took several steps designed to bring on production in the first quarter of 2005 with an eventual expected plateau production rate of 400 million cubic feet per day. In addition to activities necessary to commence commercial production of Deep

Panuke, PanCanadian expects to actively explore its acreage offshore the East Coast over the next several years. Any successes in the region could share parts of the Deep Panuke infrastructure and add to the value of the business.

The Company has continued to add to its resource base in the Gulf of Mexico where deepwater exploration offers some of the greatest potential for crude oil discoveries in North America. In 2001, the Company moved closer towards development of its Llano prospect through appraisal drilling and significantly increased its exploratory acreage position from 55 blocks to 142 blocks, with additional options that could expand its position to 269 blocks. With completion of a third appraisal well at Llano, the Company is working with its partners towards development of the discovery by evaluating the alternatives for field development. The co-venturers expect to have the initial concept selection phase of the development work completed in the first half of 2002. An early production system using sub-sea completions and a tie back to another production platform could see production brought on by early 2004 at 30,000 to 40,000 barrels per day. Success at Llano and a substantial increase in its land position supports PanCanadian's strategy of building a core exploration and production area in the deepwater Gulf of Mexico. Going forward, PanCanadian anticipates drilling further exploratory wells to capitalize on the experience gained at Llano and the additional inventory of land blocks. As well, PanCanadian plans to continue to enhance its position in the deepwater Gulf of Mexico through farm-ins, exchanges and acquisitions.

The Company invested \$267 million in 2001, \$198 million in 2000 and \$77 million in 1999 in its offshore North America Frontier exploration activities. In 2001, expenditures were \$144 million for activities offshore the East Coast of Canada and \$122 million for activities in the Gulf of Mexico.

International Exploration Activity

The Company has assessment or exploration programs in other regions, namely Australia, Brazil, Ghana and Yemen, where it is focused on world-class opportunities for lighter crude oils that could develop into new, high impact growth platforms. Efforts are typically concentrated on regions that are relatively underexplored, but have a good probability of light/medium crude oil pools and offer the opportunity to establish a large land position. The Company's criteria also require that these regions include the possibility of pursuing a number of potential projects, often with high-quality partners, and offer attractive fiscal regimes.

Expenditures on international exploration plays were \$130 million in 2001, up from \$74 million in 2000 and \$72 million in 1999. Expenditures in 2001 include \$64 million for exploration activities in the United Kingdom Central North Sea.

In 2000, the Company decided to terminate its exploration programs in South Africa and the Ivory Coast. A similar decision was made with respect to its interests in Venezuela in 1999.

Consolidated Upstream Expenses

Administrative Expenses: Administrative expenses in the upstream division of \$70 million in 2001 were up \$5 million from 2000 and \$15 million from 1999. On a barrel of oil equivalent basis, administrative expenses were up four percent to 66 cents per barrel in 2001 and six percent to 63 cents per barrel in 2000. The increases were principally attributable to new areas of activity and higher payouts under the employee profit sharing plan due to the Company's strong financial performance.

Depletion, Depreciation and Amortization: Depletion, depreciation and amortization expense increased \$75 million, or 10 percent, to \$828 million in 2001 after increasing \$148 million, or 24 percent, to \$753 million in 2000 due in part to an increase in production. On a barrel of oil equivalent basis, depletion, depreciation and amortization costs were up seven percent to \$7.83 per barrel in 2001 and 12 percent to \$7.34 per barrel in 2000 when results included production from the United Kingdom Central North Sea operations acquired early in the year. This production attracts a much higher depletion and depreciation rate than does the Canadian production because of the intensive capital cost associated with offshore production and the impact of including some of the costs associated with the Company's United Kingdom exploratory activity in the depletable pool.

The Company recorded writedowns on certain international cost centres of \$28 million in 2001, compared with \$49 million in 2000 and \$37 million in 1999. The international cost centres subject to writedown included Australia and Libya in 2001 and 2000, South Africa and Ivory Coast in 2000 and Venezuela in 1999.

Capital Expenditures and Reserve Additions

Upstream capital spending was \$1,771 million in 2001, up from \$1,322 million in 2000. Capital expenditures on natural gas exploration and development comprised approximately 60 percent of the spending in 2001 and 2000. Acquisition and disposition activities resulted in net proceeds of \$136 million in 2001 versus an outlay of \$808 million in 2000. The Company continued its asset rationalization during the period and also concluded three strategic acquisitions.

Excluding acquisitions and dispositions, the Company added working interest and royalty interest proven reserves totalling 125 million barrels of oil equivalent in 2001 and 163 million barrels of oil equivalent in 2000, representing reserve replacement rates of 118 percent and 158 percent, respectively. Proven reserve additions for natural gas were 564 billion cubic feet in 2001 and 698 billion cubic feet in 2000, virtually all of which were in the Western Basin. The associated reserve replacement rates were 147 percent in 2001 and 201 percent in 2000, reflecting the Company's focus on growing its natural gas business in the Western Basin. The Company also added proven crude oil and NGL reserves of 31 million barrels in 2001 and 47 million barrels in 2000, including two million barrels in 2001 and seven million barrels in 2000 added in the U.K. On an established basis, reserve additions from capital programs were 184 million barrels of oil equivalent in 2001.

The Company's capital program reflected increased activity in the development of offshore and international projects for long-term production growth and value creation. In these projects, associated reserves are often delayed and added in large increments to probable and then proven reserves after several years of high exploration and development expenditures. The Company's consolidated finding and development costs on a proven reserve basis were \$13.35 per barrel of oil equivalent in 2001, up from \$7.80 in 2000 and \$5.38 in 1999. While recent exploration successes in new basins are anticipated to result in significant additions to proven reserves over the coming years, these additions have not yet been reflected in the Company's proven reserves. In 2001, the Company booked probable reserves of 131 million barrels of oil equivalent for its Buzzard discovery in the United Kingdom Central North Sea. The consolidated finding and development cost on a established (proven plus one-half probable) reserve basis was \$9.07 per barrel of oil equivalent. As the Company progresses the development of its new basins, the United Kingdom Central North Sea, the Gulf of Mexico and offshore the East Coast of Canada, it is expected that additional probable reserves will be booked and then added to proven reserves to the benefit of future finding and development costs.

In the Western Basin, finding and development costs on a proven reserve basis were \$10.40 per barrel of oil equivalent in 2001, compared with \$6.47 in 2000 and \$4.55 in 1999. The increase in part reflected expenditures on a number of larger projects, such as SAGD heavy oil development at Christina Lake, the Weyburn CO₂ miscible flood project and coal bed methane joint venture, which require longer lead-times before reserves are booked. Excluding capital expenditures connected with these projects, Western Basin finding and development costs were \$9.04 per barrel of oil equivalent in 2001. There were other factors underlying the rise in finding and development costs. The Company's Great Plains business unit completed a spending program in 2001 targeted at supporting a much larger production program in coming years than previously undertaken on the newly acquired Montana Power and Causeway lands. The Palliser business unit has increasingly undertaken a program of optimizing production from proved undeveloped reserves to capitalize on historically strong natural gas prices. Approximately 40 percent of the capital spending on natural gas activities in the Western Basin was directed towards optimizing production, which creates significant value, but less substantial reserve additions. The Company still maintains a large inventory of natural gas prospects.

Continuing its farmout program, the Company entered into farmouts involving approximately 363,000 acres in 2001 and 458,000 acres in 2000. Third parties drilled, at no cost to the Company, a total of 1,493 royalty interest wells in 2001, resulting in 1,127 natural gas wells and 294 oil wells. This compared with 1,437 wells in 2000, which resulted in 956 natural gas and 352 oil wells. The wells drilled in 2001 contributed proven reserve additions of 82 billion cubic feet of natural gas and four million barrels of crude oil and field NGL compared with 33 billion cubic feet and 3 million barrels in 2000. Daily volumes of royalty interest natural gas production averaged 118 million cubic feet in 2001, up from 116 million cubic feet in 2000 and 101 million cubic feet in 1999. In 2001, volumes of royalty interest crude oil averaged 11,200 barrels per day, down slightly from 11,300 in 2000 but up from 10,000 in 1999.

The Company's asset rationalization program continued to focus on maximizing profitability by selling non-core assets. In 2001, the Company sold its 40-percent non-operated working interest in the Woollybutt field development in June, its Pelican Lake property in February, and other minor properties; total proceeds amounted to \$201 million. The Pelican Lake property produced an average of 5,000 barrels of heavy crude oil per day and 4.7 million cubic feet of natural gas per day. Rationalization proceeds of \$194 million were realized in 2000. The Company sold a seven percent interest in the Weyburn unit in the third quarter of 2000, realizing net proceeds of approximately \$41 million. In a separate transaction late in the fourth quarter of 2000, the Company also sold an 11.7 percent net royalty interest in the Weyburn unit for approximately \$78 million. These sales reduced the Company's economic interest in the Weyburn unit to approximately 50 percent. The reductions in the Company's holdings in the unit reflected its long-term objective of owning approximately 50 percent of the project.

MARKETING AND MIDSTREAM ACTIVITIES

The primary objective of the Marketing and Midstream business unit is to enhance the value of, and manage the price risk associated with PanCanadian's production. The business unit also leverages the Company's infrastructure, financial strength and broad industry experience by marketing third-party volumes. This provides enhanced service for the customer as well as growing profitability and scope for the Company. In addition, it offers important market intelligence, assisting the Company in its corporate risk management, and project and hedging decisions. Midstream activities include operating gas processing, NGL extraction and power plants, as well as transportation and storage facilities.

Marketed volumes continued to grow and in 2001 were up 24 percent from 2000 and 31 percent from 1999. In 2001, two new power generation facilities were completed, thereby extending the Company's participation in the energy value chain downstream and capitalizing on opportunities from convergence in the energy markets. The Company also entered into a non-binding memorandum of understanding for the development of an 85 megawatt natural gas-fired cogeneration plant that is contracted to be in service by December 2004. Marketing and Midstream activities contributed income of \$113 million in 2001, \$129 million in 2000 and \$41 million in 1999.

Marketing and Midstream Financial and Operating Results

	2001	2000	1999
		(millions)	
Revenues			
Marketing*	\$ 9,849	\$6,911	\$3,688
Midstream	267	314	193
	<u>10,116</u>	<u>7,225</u>	<u>3,881</u>
Direct expenses			
Marketing*	9,673	6,785	3,630
Midstream	228	229	150
	<u>9,901</u>	<u>7,014</u>	<u>3,780</u>
Margin	215	211	101
Administrative	74	60	40
Depreciation and amortization	28	22	20
Marketing and Midstream income	<u>\$ 113</u>	<u>\$ 129</u>	<u>\$ 41</u>

* Results of the Marketing and Midstream segment include inter-segment sales as disclosed in Note 4 to the Consolidated Financial Statements.

Marketing

<i>Marketed Volumes</i>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Natural gas (million cubic feet per day)	3,313	2,361	2,243
Crude oil (thousand barrels per day)	175	170	160
NGL (thousand barrels per day)	44	57	42
Electricity (thousand megawatt hours)	474	434	267
Total BTUs marketed (thousand MMBTU per day)*	4,643	3,749	3,547

* Conversion assumed at: 1 million cubic feet = 1 thousand MMBTU; 1 thousand barrels = 6 thousand MMBTU; 1 thousand megawatt hours = 10 thousand MMBTU.

In 2001, marketing revenues and related purchased product costs were \$9,849 million and \$9,673 million, respectively, up more than two and one-half times from 1999. Marketing revenue and purchased product costs include sales and purchases related to Company-produced and third-party volumes.

Higher natural gas prices and expanded activity were significant factors underlying the growth in the margin on marketing activities to \$176 million in 2001 and \$126 million in 2000 from \$58 million in 1999. The expansion in the business unit in part reflected the acquisition of marketing operations which added customers in Michigan, Montana and Colorado.

Revenue and related purchased product costs on natural gas activities were up 67 percent in 2001 and 83 percent in 2000 as a result of higher commodity prices and natural gas volume growth. In 2001, PanCanadian Energy Services, PanCanadian's natural gas and electricity marketing arm, marketed an average of 3,313 million cubic feet of natural gas per day in Canada and the United States, up 40 percent from 2000 and 48 percent from 1999. PanCanadian's third-party marketed natural gas volumes grew to 71 percent of total marketed volumes in 2001, compared with 63 percent in 2000 and 1999.

Crude oil marketing revenue and related purchased product costs declined about 13 percent in 2001 following an increase of over 90 percent in 2000. The variances were predominantly the result of the trend in crude oil prices over the period. Marketed crude oil volumes were up eight percent in 2000 and two percent in 2001, reaching 175,000 barrels per day in 2001. Third-party volumes, including those sourced from the Alberta government and Canadian Oil Sands Trust, were 72,000 barrels per day in 2001, 64,000 barrels per day in 2000 and 51,000 barrels per day in 1999.

In late 2001, the Company was again awarded the marketing rights for Canadian Oil Sands Trust's share of Syncrude's crude oil production of approximately 55,000 barrels per day. This 22 percent share is up from the 10 percent share held by Canadian Oil Sands Trust prior to its merger with Athabasca Oil Sands Trust in July 2001.

Kinetic Resources, an affiliate in which PanCanadian owns 75 percent, markets PanCanadian's NGL. In 2001, NGL marketing revenue and purchased product costs declined due to lower prices and a 23 percent decrease in volumes. During early 2001, production of extracted NGL was reduced to realize incremental value through the sale of high-priced natural gas, which would otherwise have been consumed in the NGL production process. NGL marketing revenue and purchased product costs more than doubled in 2000 compared with 1999 due to higher product prices and increased volumes. An increase of 36 percent in marketed volumes in 2000 was largely attributable to the liquidation of storage volumes early in the year to take advantage of favourable pricing and increased PanCanadian volumes from resumed operations at the Younger plant at Taylor, British Columbia. The plant, which is operated by a third party, suffered a fire in January 1999.

Electricity marketed by PanCanadian Energy Services totalled 474,000 megawatt hours in 2001, compared with 434,000 megawatt hours in 2000 and 267,000 megawatt hours in 1999.

Midstream

	2001		2000		1999	
	Volume	Daily Average	Volume	Daily Average	Volume	Daily Average
			(thousand barrels)			
Natural gas liquids production	9,299	26	10,418	29	9,990	27

	2001		2000		1999	
	Megawatt Capacity	Ownership %	PanCanadian Megawatt Capacity	PanCanadian Megawatt Capacity	PanCanadian Megawatt Capacity	PanCanadian Megawatt Capacity
Electricity Capacity						
Kingston	108	25	27	27	27	27
Cavalier	85	100	85	—	—	—
Balzac	85	50	43	—	—	—
Total			<u>155</u>	<u>27</u>	<u>27</u>	<u>27</u>

Midstream revenues decreased to \$267 million in 2001 from \$314 million in 2000, but were up from \$193 million in 1999. The operating margin of \$39 million in 2001 compared with \$85 million in 2000 and \$43 million in 1999.

In 2001, Canadian operations experienced a 25 percent decline in volumes due mainly to the planned reductions in production of extracted NGL noted above. Overall NGL volumes in 2001 were down only 10 percent because of volumes added by a processing plant in Colorado, which was acquired as part of the purchase of the Montana Power assets in the fourth quarter of 2000. The increases in revenues and operating margin in 2000 stemmed mainly from the liquidation of storage volumes at favourable prices. Operating expenses rose in each year because of the increased input costs of natural gas and electricity.

PanCanadian's NGL marketing capability and midstream facilities are among the largest in Canada. The Company has historically expanded its business by acquiring storage facilities and fractionation plants providing access to the premium NGL markets in Eastern Canada and in the Northeastern United States. PanCanadian holds interests in four of six NGL extraction plants that straddle two major natural gas transmission pipelines at Empress, Alberta. The rights to extract NGL from natural gas transported through these pipelines are acquired from the natural gas shippers. The volume of NGL extracted is a function of the volume of natural gas flowing through the gas transmission lines, the NGL content of the natural gas and the value of NGL relative to natural gas. When NGL values are less than natural gas values, the Company may decide to reduce extraction of NGL. The Company's combined share of processing capacity is approximately 1.7 billion cubic feet per day.

The Company also owns and operates an NGL extraction and natural gas processing facility at Fort Lupton, Colorado, that has processing capacity of 90 million cubic feet per day. This facility, along with firm pipeline capacity, a gathering system and storage infrastructure, was acquired as part of the Montana Power acquisition in the fourth quarter of 2000 and successfully integrated into the business unit's operations. Other interests in the NGL midstream business include: an NGL pipeline connecting the Empress plants to Enbridge Inc.'s pipeline capacity and storage facilities at Kerrobert, Saskatchewan; an NGL storage facility and depropanizer at Superior, Wisconsin; an NGL storage facility at Marysville, Michigan; and an NGL fractionation plant with a storage and loading facility at Sarnia, Ontario. PanCanadian disposed of its minority interest in the Manito Pipeline in July 2000.

Growing demand for electricity in North America and the convergence of natural gas and electricity uniquely positioned PanCanadian to benefit from opportunities in the deregulated power market in Alberta. In 2001, the business unit completed construction of two 106-megawatt power plants in southern Alberta to supply electricity to the Power Pool of Alberta, pursuant to a long-term contract. The Company also received a permit from the National Energy Board to export electricity into the United States for a period of 10 years. The Cavalier Power Station began selling electricity to the Alberta Power Pool at 80 percent of capacity in late August. The plant, located 55 kilometres east of Calgary, is 100-percent owned and operated by PanCanadian.

Also near Calgary, the Balzac Power Station, in which PanCanadian holds a 50-percent interest, began operations at 80 percent of capacity in December, with a third party as the operator. These plants position PanCanadian as one of the largest independent power producers in Alberta and contributed revenues of \$12 million in 2001.

The Company holds a 25-percent working interest in a 108-megawatt cogeneration facility in Kingston, Ontario. During 2001, the Company also entered into a non-binding memorandum of understanding with Canadian Fertilizers Limited (CFL) for the development of an 85-megawatt natural gas-fired cogeneration plant to be located at CFL's nitrogen complex in Medicine Hat, Alberta. The facility will be developed and owned by PanCanadian, and will provide steam to CFL. The plant is contracted to be in service prior to December 2004.

Marketing and Midstream also manages energy services for PanCanadian and other large end-use customers. Services include supply and least-cost sourcing, trading services, asset management, transportation management, dispatching and scheduling, accounting, regulatory surveillance, project development and real time energy optimization. In 2001, PanCanadian Energy Services acquired new electricity consumption management software as part of a cost management initiative for the Company's upstream activities and other third-party customers.

In 2002, Marketing and Midstream will continue to capitalize on opportunities to grow and diversify, supplying the strategic and integrated critical market knowledge that supports PanCanadian's position as a premier North American energy company.

Consolidated Marketing and Midstream Expenses

Administrative Expenses: The Marketing and Midstream unit's administrative expenses rose to \$74 million in 2001 from \$60 million in 2000 and \$40 million in 1999. The increases principally reflected higher staffing levels brought about by an expanded Marketing and Midstream asset and activity base, which supports new opportunities for value-added margins. In addition, employee profit sharing contributed to the higher charges.

Depreciation and Amortization: In the Marketing and Midstream business unit, depreciation and amortization expenses of \$28 million in 2001 were up \$6 million from 2000 and \$8 million from 1999. The increases mainly reflected the depreciation charges on the two new electricity generation plants commissioned in 2001, as well as the midstream assets in Colorado, which were acquired as part of the Montana Power acquisition in the fourth quarter of 2000.

Capital Expenditures: Marketing and Midstream's capital expenditures were \$175 million in 2001 and \$93 million in 2000. Most of this capital spending was related to the construction of the two new electricity generation plants.

CORPORATE

Interest and Other Revenue

Interest revenue of \$35 million in 2001 was up \$20 million from \$15 million in 2000 and up \$25 million from \$10 million in 1999. Average cash balances rose through 2001 and 2000. Other items are mainly related to the Company's foreign exchange position and contributed revenue of \$11 million in 2001, versus charges of \$14 million in 2000 and \$1 million in 1999.

Administrative Expenses

Corporate administrative expenses in 2001 included one-time costs of \$13 million associated with the spin off of CPL's approximate 85 percent interest in PanCanadian to CPL's common shareholders as part of the reorganization of CPL.

Interest Expense

Interest expense was \$98 million in 2001, up from \$90 million in 2000 and \$91 million in 1999. The increase in 2001 principally reflected higher net borrowing levels in the last quarter of 2001 when the special dividend of \$1,180 million was paid and new debt issued.

Income Taxes

The provision for income taxes was \$652 million in 2001, \$647 million in 2000 and \$133 million in 1999, with effective tax rates of 33.3 percent in 2001, 38.4 percent in 2000 and 27.5 percent in 1999. The provision in 2001 included an adjustment of \$81 million to future income taxes resulting from a reduction in the Alberta corporate tax rate. The provision for 2000 included a charge of \$77 million in respect of specific non-recurring items, while in 1999 there was a benefit of \$22 million in relation to previously unrecognized U.S. tax losses. The Company will pay a substantial amount of Canadian cash taxes in respect of 2001 due to the significant increase in operating income in 2001 and 2000.

During 2001, the Company changed the method of classifying current and future taxes with respect to consolidated entities that have a later year-end than the Company. This change was made in order to better match the current income tax provision for a particular year with the earnings and cash flow for that year. Under the revised method, the current income tax provision includes amounts payable or recoverable in respect of these entities' income included in the consolidated financial statements. Previously, these amounts were included in current taxes when payable. This change resulted in a decrease in reported cash flow of \$295 million in 2001 and \$170 million in 2000, but had no effect on total tax expense, net income, cash from operating activities or the Company's financial position. Further details on the Company's income tax provision are provided in Note 5 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

<i>Liquidity Statistics</i>	2001	2000	1999
Debt (millions)	\$2,278	\$1,312	\$1,111
Net debt (millions)	\$1,315	\$1,115	\$ 979
Working capital (millions)	\$ 151	\$ (233)	\$ 206
Non-cash working capital* (millions)	\$ (612)	\$ 43	\$ 89
Debt to debt plus equity (%)	36	25	27
Net debt to cash flow (%)	57	48	88
Net interest coverage (times)	32	24	7

* Includes accounts receivable, risk management assets, inventories, accounts payable, accrued liabilities, income taxes payable and risk management liabilities.

Record cash flows in 2001 and 2000 contributed significant funding for an aggressive capital spending program in each year while maintaining a solid financial position. Debt, including the current portion, was \$2,278 million at December 31, 2001, compared with \$1,312 million at year-end 2000 and \$1,111 million at year-end 1999. Debt to debt plus equity was 36 percent at year-end 2001, up from 25 percent at year-end 2000 and 27 percent at year-end 1999. In the first half of 2002, a total of US\$100 million of medium term notes will mature and be retired. At December 31, 2001, cash on hand was \$963 million, net debt to cash flow was low at 57 percent and interest coverage was a healthy 32 times. This financial strength is supplemented by a \$1.2 billion syndicated credit facility, other bank facilities of \$550 million and a \$300 million commercial paper program. During the third quarter of 2001, the Company renewed a \$1 billion Canadian medium term note shelf for a two-year term. At December 31, 2001, no issuances were outstanding and the total authorized amounts were available for use.

Cash Flow

PanCanadian's cash flow of \$2,306 million in 2001 compared with \$2,303 million in 2000 and \$1,110 million in 1999. The improved cash flow of 2001 and 2000 provided a significant portion of the funding for net investing activities of \$4,018 million in the two years and the special dividend of \$1,180 million in 2001. Investing activities included three strategic acquisitions — Causeway in 2001, and the oil and gas division of Montana Power and interests in the Scott and Telford properties in 2000.

Non-cash working capital amounted to a negative balance of \$612 million in 2001 versus positive balances of \$43 million in 2000 and \$89 million in 1999. The large negative balance in 2001 principally stemmed from an increase in income taxes payable to \$656 million in 2001 from \$181 million in 2000 as operating earnings

improved. As well, accounts receivable declined \$472 million to \$841 million in 2001, while accounts payable decreased \$217 million to \$990 million. Accounts receivable balances declined chiefly due to the effect of lower energy prices on Marketing's accounts receivable. The price effect on accounts payable was partially offset by a rise in accounts payable associated with a higher capital expenditure program. In 2000, accounts receivable more than doubled to \$1,313 million at year-end from \$564 million at year-end 1999 as a result of the sharp rise in marketing activity and commodity prices in 2000, particularly for natural gas. PanCanadian significantly strengthened its credit management practices in 2000 in response to this. Trade payables rose 101 percent to \$1,207 million in 2000, also indicative of increased marketing volumes, higher crude oil and gas prices and the increased activity resulting from a higher capital expenditure program.

Investing Activities

The Company's capital spending was \$1,946 million in 2001 and \$1,415 million in 2000, compared with \$825 million in 1999. Expenditures were managed to reflect a strengthening in energy prices as well as increasing demand for natural gas. The majority, approximately 67 percent, of the investment in 2001 was directed towards natural gas and crude oil exploration and development in the Western Basin. Approximately 20 percent was targeted to high impact exploration and other activities internationally and offshore the East Coast of Canada. Approximately nine percent was directed towards Marketing and Midstream activities and the remaining four percent invested in other corporate activities. Similarly in 2000, natural gas and crude oil exploration and development in the Western Basin accounted for the majority, about 73 percent, of the capital expenditures. Other North American activities and international spending represented approximately 19 percent of the spending in 2000. The Company drilled 2,251 wells in 2001, 93 percent of which were successful, and more than 2,500 wells in 2000, at a 95 percent success rate.

Acquisition and disposition activities resulted in net proceeds of \$136 million in 2001 versus a net outlay of \$808 million in 2000. PanCanadian's acquisition spending totalled \$86 million in 2001, including the purchase in August of Causeway for \$65 million, and the assumption of \$4 million of Causeway debt. Dispositions in 2001 included the Company's 40-percent non-operated working interest in the Woollybutt field development in June, its Pelican Lake property in February, and other properties; total proceeds were \$222 million.

In 2000, the Company invested \$948 million to acquire the Montana Power assets effective October 31 and interests in the Scott and Telford properties effective January 7, as well as \$54 million for smaller acquisitions. Proceeds from the disposition of properties in 2000 amounted to \$194 million, including \$78 million for an 11.7 percent net royalty interest in the Weyburn unit and \$41 million for a seven percent working interest in that unit.

Financing Activities

In October 2001, the Company filed a U.S. shelf prospectus that authorizes the issue from time to time of U.S. dollar denominated debt securities up to an aggregate principal amount of US\$1.5 billion. Late in the same month, the Company issued US\$850 million of unsecured notes in two tranches with 10 and 30-year maturities. The US\$500 million notes due November 1, 2011 have a coupon of 6.3 percent and the US\$350 million notes have a coupon of 7.2 percent and mature November 1, 2031. Net proceeds from the notes were used for the repayment of short-term debt, maturing long-term debt and funding of the Company's capital investment program.

In March 1999, PanCanadian issued \$126 million of Coupon Reset Subordinated Term Securities that mature in 2034 and bear interest at an annual rate of seven percent payable semi-annually for the first five years and is reset at the Five Year Government of Canada Yield plus two percent on each fifth anniversary of the date of issuance.

On October 1, 2001, PanCanadian received approval from the Toronto Stock Exchange (TSE) for a normal course issuer bid program that allows the Company to purchase for cancellation up to 12.6 million common shares, or five per cent of its then outstanding common shares. The program commenced on October 3, 2001 and is in effect for a twelve-month period. The amounts and timing of purchases are at the Company's discretion

and will be transacted at prevailing market prices on the TSE. As of February 19, 2002, the Company had purchased for cancellation 172,900 common shares at an average price of \$41.69 per common share under the program. Under an earlier normal course issuer bid program, PanCanadian purchased approximately 295,400 shares at an average cost of \$26.65 per common share in the 12-month period ending February 2001.

Pursuant to a credit agreement signed in February 2002, PanCanadian provided a US\$20 million revolving credit facility to an offshore drilling rig manufacturer constructing a semi-submersible rig for which PanCanadian has a contract. Advances under this credit facility are to be utilized for rig completion costs, normal course general and administration costs and other expenses. The facility is partially secured by specific assets and PanCanadian retains the right to set-off advances against drilling rig lease commitments, which are included as part of the Company's lease commitments detailed in Note 18 to the Consolidated Financial Statements. The facility matures on October 31, 2002 and bears interest at market rates.

The strength of its balance sheet provides PanCanadian with the financial flexibility to capitalize on opportunities as they arise and embark on longer-term, large-scale growth prospects and development strategies. The Company's focus on maintaining high quality credit ratings enables PanCanadian to minimize its cost of debt and ensures continuous access to the Canadian and U.S. public debt markets. The Company's current ratings from Dominion Bond Rating Service, Standard & Poor's and Moody's are A, A-, and A3, respectively. In light of the proposed merger with Alberta Energy Company Ltd. (AEC) and the pre-existing credit ratings of each company, the agencies have placed the ratings of PanCanadian under review with negative implications, while the ratings of AEC have been placed under review with positive implications.

Risk Management

Through the normal course of its business, PanCanadian is exposed to market risks resulting from commodity price, foreign currency exchange rate and interest rate fluctuations. To mitigate the adverse impact of significant negative price or rate movements, the Company actively manages its exposure to these risks through the use of exchange-traded and over-the-counter (OTC) derivative instruments. The use of derivative instruments is governed under formal policies approved by senior management, and is subject to limits established by the Board of Directors.

PanCanadian's corporate risk management program is intended to provide protection against commodity price and exchange rate volatility, enhance the probability of achieving corporate performance targets, and lock in desirable rates of return on specific projects. These risk management initiatives improve PanCanadian's ability to plan and implement strategies to enhance shareholder value. PanCanadian's strategy is to provide protection from significant market downturns, while retaining significant opportunity to realize benefits from positive price and rate movements. However, the Company acknowledges that, as a result of hedging, it may not fully participate in the opportunity to benefit from positive price and rate movements.

The Marketing and Midstream division is exposed to shorter-term risks associated with marketing operations. Operating under strict corporate policy requirements, the division manages its exposure to market risks through a governance process that utilizes financial tools and systems to generate analysis of positions and mark-to-market valuations. Valuations are monitored daily against prescribed value-at-risk limits. If these limits are exceeded, operations are halted and then the PanCanadian Risk Management Committee reviews its policies and practices.

At year-end, PanCanadian's risk management activities included positions with respect to crude oil, natural gas, interest rates, foreign currency exchange rates and preferred securities distributions. Additional information on the Company's risk management positions is provided in Note 17 to the Consolidated Financial Statements.

Natural Gas

PanCanadian markets its natural gas production in several North American areas where prices are determined by local market conditions. The resulting exposures are adjusted to reflect the Company's risk management strategies using NYMEX natural gas futures contracts or OTC financial instruments.

In 2001, PanCanadian's natural gas hedging activities resulted in gains of \$272 million, prior to an allocation of foreign currency hedging losses of \$64 million. This compares with losses of \$4 million in 2000 and gains of \$7 million in 1999, prior to allocation of foreign currency hedging losses of \$39 million in each of those years.

As at December 31, 2001, the Company had hedged approximately 205 million cubic feet per day over the period January through October 2002 at an average AECO netback of \$5.97 per thousand cubic feet. In addition, PanCanadian has sold call options on 113,600 cubic feet per day of AECO natural gas for the period November 2001 to October 2002 at an average strike price of \$6.05 per thousand cubic feet.

Crude Oil

Most of the Company's crude oil is sold at index prices calculated by reference to the near month WTI futures contract — the benchmark price used in Canadian markets. Exposure to changing WTI crude oil prices and quality differentials is hedged using a combination of futures contracts and OTC financial instruments.

In 2001, the Company's crude oil hedging activities resulted in gains of \$58 million, prior to an allocation of foreign currency hedging losses of \$27 million. By comparison, the Company experienced losses of \$69 million and \$1 million in 2000 and 1999, prior to allocations of foreign currency hedging losses of \$31 million and \$39 million, respectively.

PanCanadian has hedged 15,000 barrels per day of Canadian crude oil production at an average WTI price of US\$23.78 for the period January through March 2002. A further 10,000 barrels per day is hedged at an average WTI price of US\$23.57 for the period April through June 2002.

Foreign Currency and Interest Rates

Because the Company's crude oil sales and a large portion of its natural gas and NGL sales are effectively denominated in U.S. dollars, PanCanadian is significantly exposed to currency exchange rate fluctuations. To manage this exposure, the Company may hedge a portion of its future revenue streams by selling U.S. dollars at fixed rates in future periods through forward foreign currency exchange contracts, and by denominating its long-term debt in U.S. dollars.

Currency hedging activities resulted in a loss of \$90 million in 2001, reflecting the continuing weakness of the Canadian dollar relative to the U.S. dollar. In 2000 and 1999, the Company incurred losses of \$70 million and \$78 million, respectively. For 2002, PanCanadian has sold forward approximately US\$422 million at an average exchange rate of US\$0.75. The Company currently holds slightly smaller positions for 2003 through 2004 as described in Note 17 of the Consolidated Financial Statements.

PanCanadian may use interest rate swaps, cross-currency interest rate swaps, forward foreign currency exchange contracts and swaps to manage its exposure to interest rates, and to effectively denominate long-term debt in U.S. dollars. The amounts, terms and conditions of the underlying debt obligations remain unchanged from the original issue. Interest rate risk management activities resulted in a loss of \$0.1 million in 2001.

Credit Risk

The Company is exposed to potential credit related losses in the event that counterparts to contracts fail to perform. PanCanadian minimizes the risk of such losses through credit management practices mandated through credit policies and procedures to ensure that exposures are held within acceptable levels. PanCanadian does not have a significant concentration of credit risk with any single counterpart, and bad debts incurred or provided for in 2001 were not material.

Operational

PanCanadian manages the operational risks associated with oil and gas production and development through a comprehensive insurance program designed to protect the Company from any significant losses arising

from the risk exposures. The Company believes the program provides sufficient coverage for safeguarding of PanCanadian's capital through insurance coverage of property, third-party liability and business continuity. The program is assessed and optimized on an ongoing basis.

PanCanadian is also exposed to geological, technical and economic risks associated with finding and developing reserves. Future economic and operating conditions and changes in technology have a significant impact on determining the volume of economically recoverable reserves. PanCanadian manages these risks by ensuring the Company maintains a diverse portfolio of producing assets and a sizable undeveloped land inventory to provide future opportunity. PanCanadian continues to develop expertise in a variety of geographic areas with different geological compositions. Through its operations, the Company is continuously working to improve existing technology and to develop and apply advanced technology effectively. Internationally, the Company's investments represent a diverse and balanced portfolio in terms of political, economic and geographic risk. In certain areas of its business, PanCanadian actively partners with other companies whose experience, knowledge or market presence can mitigate the risk exposure.

Safety and the Environment

PanCanadian manages the safety and environment risks associated with its operations by establishing and executing policies and standards that comply with, or exceed, government regulations and generally accepted industry standards. The Company maintains a stewardship system that identifies, assesses and controls safety and environmental risk in all of the Company's activities and requires regular reporting to senior management.

PanCanadian demonstrates environmental stewardship through its processes for environmental impact assessment, facility inspection, land reclamation and air emission control processes. The Company maintains a solid record of compliance reporting and is appropriately involved with new regulatory initiatives proposed by various levels of government. No extraordinary capital expenditures relating to environmental controls for existing or new facilities are expected at this time.

Public safety and provision of a safe work place for employees are two of the Company's key values. Audits, risk assessments, detailed work practices and incident investigations are examples of actions that demonstrate its commitment.

PanCanadian continues to participate in Canada's National Climate Change Program and takes an active role in the Province of Alberta's Climate Change Central Initiative. PanCanadian understands the relevant issues, has established a climate change strategy that guides its activities and has appropriate monitoring and operation programs in place. The Company has achieved substantial reductions of greenhouse gas emissions from operations over the past six years.

OUTLOOK

The outlook that follows excludes the effect of the proposed merger transaction between PanCanadian and AEC.

During 2002, PanCanadian's activities will continue to be directed towards delivering strong near term production growth from the Western Basin and developing offshore and international projects for medium and longer term value creation.

The emphasis in the Western Basin is to continue to grow natural gas production and reserves. Supply/demand fundamentals for natural gas in North America are considered favourable, especially over the medium term. For planning purposes, the Company is targeting a 10 percent increase in natural gas production.

Natural gas prices are expected to weaken from their 2001 average price, which reflected exceptional highs in the early part of the year. PanCanadian's management has assumed the NYMEX benchmark price for natural gas per million British thermal unit will average US\$3.00 in 2002, down from US\$4.27 in 2001 when prices declined from US\$7.09 in the first quarter to US\$2.45 in the fourth quarter. There are many uncertainties in

current market conditions, but sluggish industrial demand and high storage levels are expected to limit a recovery in natural gas prices until the later part of 2002.

In addition to growing its conventional natural gas production, the Company is also moving forward with development of its large resource base in coal bed methane. While no coal bed methane production or funding for commercial development has been assumed for 2002, results to date from the exploration and pilot programs have been very encouraging. The Company expects to make a decision about commercial development before the end of the first half of 2002.

In 2002, crude oil production is expected to decline by five percent from 2001. In the Western Basin, normal decline rates and a strategic focus on natural gas, together with a decision to reduce expenditures on conventional heavy crude oil in light of lower crude oil prices and wider differentials, are anticipated to result in lower crude oil production. In addition, the Company will continue to rationalize assets, where appropriate, in 2002. These factors are anticipated to be only partially offset by incremental production from the CO₂ miscible flood project at the Company's Weyburn operations. The Company will continue its work on the Christina Lake oil sands development project, which has the potential to add significant reserves and production in the medium term. The Company expects to complete the commissioning of Phase 1 of the Christina Lake project by the end of the first quarter of 2002 and will decide on the timing of subsequent phases based on operational results and the economics of the business.

Crude oil prices are subject to numerous economic and political pressures affecting demand and supply availability. However under a continuing scenario of weak demand, surplus OPEC capacity and rising non-OPEC supply, expectations are for a lower average price in 2002 compared with 2001. PanCanadian's management has assumed that the benchmark WTI crude oil price will average US\$20.00 per barrel in 2002, down from nearly US\$26.00 per barrel in 2001. In addition, Canadian heavy crude oil differentials are expected to narrow modestly from the exceptionally high levels experienced since the fourth quarter of 2000. For planning purposes, management has assumed an average of US\$7.00 per barrel for the Bow River differential. This is down from US\$9.87 per barrel in 2001, based on assumptions including reduced lighter crude oil prices and limited growth in heavy crude oil supplies.

Throughout 2001 and into 2002, the US/Canadian dollar exchange rate experienced a period of ups and downs as it responded to changes in interest rate spreads and weakening commodity prices. For planning purposes, management has assumed an average Canadian dollar exchange rate of US\$0.63 for 2002, down from the 2001 full year average of US\$0.65 but essentially unchanged from the average in the last quarter of 2001.

PanCanadian's Board of Directors approved a 2002 capital investment program of \$1.7 billion, the second highest in the Company's history. It is expected that the Company will be able to fund this program largely from cash flow. This will leave the Company with the financial capacity to invest in its best onshore and offshore projects in subsequent years and to respond to opportunities as they arise.

Approximately \$1.1 billion, or 70 percent, of PanCanadian's exploration and production capital investment of some \$1.6 billion is anticipated to be targeted towards natural gas. Planned 2002 development expenditures for the Deep Panuke natural gas field offshore Nova Scotia are \$114 million to support activities targeted at bringing on production in early 2005. As part of its commitment to following-up on this natural gas discovery offshore Canada's East Coast, PanCanadian has also secured a contract for one of the world's largest and most sophisticated drilling rigs that is capable of operating year-round in this harsh environment and deep waters. The rig, currently under construction, is contracted for an initial six-month term expected to begin in the second half of 2002. The Company holds several options to extend the contract term. Further details on the Company's lease commitments are provided in Note 18 to the Consolidated Financial Statements.

Planned crude oil investment spending of almost \$500 million includes \$41 million at the Buzzard discovery in the United Kingdom Central North Sea. At Buzzard, the focus is intensifying on development as a multi-well appraisal program continues on other portions of the field to follow up on estimates of 400 million barrels of recoverable crude oil on portions of the field evaluated to date. PanCanadian and its partners are assessing a

variety of production options for Buzzard and further capital will be authorized to pursue development this year, with production expected in late 2004 or early 2005.

At the Llano crude oil discovery in the Gulf of Mexico, the Company and its co-venturers aim to complete the initial development-concept selection phase of work in the first half of 2002, which could lead to first production starting in early 2004. Capital costs in 2002 are expected to be approximately \$21 million.

Despite a shift in capital investment to include a smaller proportion of spending in the Western Basin, natural gas production growth is expected to remain strong. As well, the spending on major projects offshore the East Coast of Canada, at the United Kingdom Central North Sea and at the deepwaters in the Gulf of Mexico is forecast to be a major contributor to an expected increase in proven reserves of more than 200 million barrels of oil equivalent in 2002.

The following table provides an estimate of the sensitivity of the Company's net income in 2002 to commodity prices and exchange rates. These estimates are based on management's assumptions used for planning purposes for 2002, as given above, and include the effect of all hedging contracts in effect at December 31, 2001.

	<u>Sensitivity</u>	<u>Estimated impact on 2002 net income</u>
		(millions)
Crude oil and NGL	US\$1.00 per barrel (WTI and Brent)	\$33
Natural gas	Cdn \$0.25 per thousand cubic feet	\$45
US dollar exchange	US\$0.01 per Cdn \$	\$12

PanCanadian Energy Corporation

**CONSOLIDATED FINANCIAL
STATEMENTS**

For the Year Ended December 31, 2001

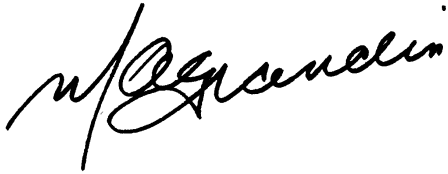
MANAGEMENT'S REPORT

Management is responsible for all information contained in this Joint Information Circular. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgements and estimates. The financial and operating information included in this Joint Information Circular is consistent with that contained in the consolidated financial statements in all material respects.

To assist management in fulfilling its responsibilities, systems of accounting and internal controls are maintained to provide reasonable assurance that financial information is reliable and accurate, and that assets are adequately safeguarded. The internal audit department monitors and evaluates compliance with, and the adequacy of, these controls.

External auditors, appointed by the PanCanadian shareholders, have independently examined the consolidated financial statements and conducted a review of accounting and internal controls to the extent required under Canadian generally accepted auditing standards. They have performed such tests as they deemed necessary to enable them to express an opinion on these financial statements.

The PanCanadian Board has appointed an Audit Committee, consisting of four directors who are neither employees nor officers of PanCanadian. It meets regularly with management, the internal audit department and external auditors to discuss controls over the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of PanCanadian's external auditors, who are elected annually by PanCanadian's shareholders. The Audit Committee has reviewed the financial statements and the contents of the Joint Information Circular with management and the external auditors. The PanCanadian Board has approved the consolidated financial statements on the recommendation of the Audit Committee.



MICHAEL A. GRANDIN
President



WESLEY R. TWISS
Executive Vice President & Chief Financial Officer

February 8, 2002

AUDITORS' REPORT

To the Shareholders of PanCanadian Energy Corporation

We have audited the consolidated balance sheets of PanCanadian Energy Corporation as at December 31, 2001 and 2000, and the consolidated statements of income, retained income and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
February 8, 2002

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31

		<u>2001</u>	<u>2000</u>	<u>1999</u>
		(\$ millions, except share amounts)		
Revenues	(Note 4)	\$10,098	\$7,327	\$3,941
Expenses	(Note 4)			
Direct		7,031	4,651	2,647
Administrative		157	125	95
Interest on long term debt		98	90	91
Depletion, depreciation and amortization		856	775	625
		<u>8,142</u>	<u>5,641</u>	<u>3,458</u>
Income before income taxes		1,956	1,686	483
Provision for income taxes	(Note 5)			
Current		508	176	14
Future		144	471	119
		<u>652</u>	<u>647</u>	<u>133</u>
Net income		1,304	1,039	350
Distributions on preferred securities, net of tax	(Note 13)	(4)	(5)	(4)
Net income attributable to common shareholders		<u>\$ 1,300</u>	<u>\$1,034</u>	<u>\$ 346</u>
Net income attributable per common share				
Basic		<u>\$ 5.09</u>	<u>\$ 4.09</u>	<u>\$ 1.38</u>
Diluted	(Note 2A)	<u>\$ 5.00</u>	<u>\$ 4.04</u>	<u>\$ 1.37</u>
Weighted average number of common shares outstanding (millions)		<u>255.6</u>	<u>252.8</u>	<u>251.7</u>

CONSOLIDATED STATEMENT OF RETAINED INCOME

For the years ended December 31

		<u>2001</u>	<u>2000</u>	<u>1999</u>
		(\$ millions)		
Retained income at beginning of year		\$ 3,721	\$2,788	\$2,545
Net income		1,304	1,039	350
Dividends	(Note 3)	(1,282)	(101)	(101)
Distributions on preferred securities, net of tax	(Note 13)	(4)	(5)	(4)
Issue costs on preferred securities, net of tax		—	—	(2)
Other adjustments	(Note 6)	(50)	—	—
Retained income at end of year		<u>\$ 3,689</u>	<u>\$3,721</u>	<u>\$2,788</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions, except share amounts)		
Operating activities			
Net income	\$ 1,304	\$ 1,039	\$ 350
Depletion, depreciation and amortization	856	775	625
Future income taxes	144	471	119
Other	2	18	16
Cash flow	<u>2,306</u>	<u>2,303</u>	<u>1,110</u>
Net change in deferred items	(96)	(16)	(10)
Net change in non-cash working capital (Note 7)	<u>564</u>	<u>(58)</u>	<u>(55)</u>
Cash from operating activities	<u>2,774</u>	<u>2,229</u>	<u>1,045</u>
Financing activities			
Issuance of short term financing	440	469	–
Repayment of short term financing	(690)	(219)	–
Issuance of long term debt	1,566	76	60
Repayment of long term debt	(399)	(136)	(313)
Issuance of common shares (Note 14)	48	86	1
Repurchase of common shares (Note 14)	(7)	(8)	–
Issuance of preferred securities, net of issue costs (Note 13)	–	–	121
Dividends on common shares (Note 3)	(1,282)	(101)	(101)
Distributions on preferred securities (Note 13)	(7)	(9)	(6)
Net change in non-cash working capital (Note 7)	<u>1</u>	<u>–</u>	<u>2</u>
	<u>(330)</u>	<u>158</u>	<u>(236)</u>
Investing activities			
Petroleum and natural gas properties	(1,247)	(994)	(607)
Plant and equipment	(524)	(328)	(200)
Upstream	(1,771)	(1,322)	(807)
Marketing and midstream	(175)	(93)	(18)
	<u>(1,946)</u>	<u>(1,415)</u>	<u>(825)</u>
Net (acquisitions) dispositions (Note 8)	<u>136</u>	<u>(808)</u>	<u>33</u>
	<u>(1,810)</u>	<u>(2,223)</u>	<u>(792)</u>
Net change in other assets	25	(140)	20
Net change in non-cash working capital (Note 7)	<u>88</u>	<u>42</u>	<u>95</u>
	<u>(1,697)</u>	<u>(2,321)</u>	<u>(677)</u>
Foreign exchange gain (loss) on cash held in foreign currencies	<u>19</u>	<u>(1)</u>	<u>(3)</u>
Cash Position*			
Increase in cash	766	65	129
Cash at beginning of year	197	132	3
Cash at end of year	<u>\$ 963</u>	<u>\$ 197</u>	<u>\$ 132</u>
Cash flow per common share	<u>\$ 9.02</u>	<u>\$ 9.11</u>	<u>\$ 4.41</u>
Diluted cash flow per common share	<u>\$ 8.82</u>	<u>\$ 8.96</u>	<u>\$ 4.34</u>
Supplemental disclosure of cash flow information			
Interest paid	<u>\$ 73</u>	<u>\$ 84</u>	<u>\$ 96</u>
Income taxes paid	<u>\$ 34</u>	<u>\$ 12</u>	<u>\$ 9</u>

* Cash consists of balances with banks, cash on hand and investments in money market securities.

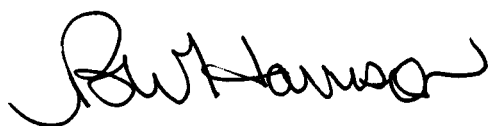
See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

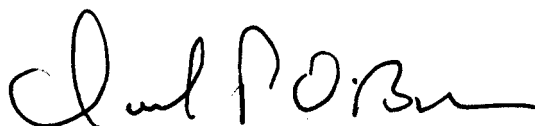
As at December 31

		<u>2001</u>	<u>2000</u>
		(\$ millions)	
Assets			
Current assets			
Cash		\$ 963	\$ 197
Accounts receivable		841	1,313
Risk management assets	(Note 2B)	414	–
Inventories		157	118
		<u>2,375</u>	<u>1,628</u>
Property, plant and equipment, at cost	(Note 9)	14,751	12,981
Less accumulated depletion, depreciation and amortization		(6,580)	(5,884)
		<u>8,171</u>	<u>7,097</u>
Deferred charges and other assets	(Note 10)	313	317
		<u>\$10,859</u>	<u>\$ 9,042</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Short term financing		\$ –	\$ 250
Accounts payable and accrued liabilities		990	1,207
Income taxes payable		656	181
Risk management liabilities	(Note 2B)	378	–
Current portion of deferred credits and liabilities	(Note 12)	40	73
Current portion of long term debt	(Note 11)	160	150
		<u>2,224</u>	<u>1,861</u>
Long term debt	(Note 11)	2,118	912
Deferred credits and liabilities	(Note 12)	419	315
Future income taxes	(Note 5)	2,060	1,925
Shareholders' equity			
Preferred securities	(Note 13)	126	126
Common shares	(Note 14)	196	148
Paid in surplus	(Note 14)	27	34
Retained income		3,689	3,721
		<u>4,038</u>	<u>4,029</u>
		<u>\$10,859</u>	<u>\$ 9,042</u>
Commitments	(Note 18)		

Approved by the Board:



Director



Director

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A) Consolidation

The consolidated financial statements include the accounts of PanCanadian Energy Corporation and its subsidiaries (“the Company”), and are presented in accordance with Canadian generally accepted accounting principles.

A significant part of the Company’s exploration, development, production and marketing activities is conducted jointly with others, and these financial statements reflect only the Company’s proportionate interest in such activities.

B) Measurement Uncertainty

The timely preparation of the financial statements requires that management make estimates and assumptions, and use judgement regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

C) Revenue Recognition

Revenues associated with the sale of natural gas, crude oil, natural gas liquids (“NGL”) are recognized when title passes from the Company to its customer. Revenues associated with the sale of transportation and storage services are recognized when the services are provided.

D) Foreign Currency Translation

Foreign currency balances, including those of integrated foreign subsidiaries, are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the year-end rate of exchange.
- Other assets and liabilities – at historical rates of exchange.
- Revenues and expenses – at monthly rates of exchange, except provisions for depreciation and depletion, which are translated on the same basis as the related assets.

Unrealized gains and losses on conversion to Canadian dollars of long term monetary assets and liabilities are deferred and amortized over the remaining lives of the related items.

E) Employee Future Benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of employee pensions and other retirement benefits is actuarially determined using the projected benefit method based on length of service, and reflects management’s best estimate of expected plan investment performance, salary escalation factors, retirement ages of employees and future health care costs. The expected return on plan assets is based on the fair value of those assets. The obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments.

Pension expense includes the cost of pension benefits earned during the current year, the interest cost on pension obligations, the expected return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets. The amortization period covers the expected average remaining service lives of employees covered by the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

G) Net Income Attributable Per Common Share

Basic earnings per common share are calculated by dividing net income, after providing for dividends on the Company's preferred securities, by the weighted average number of common shares outstanding during the year. Diluted earnings per common share are calculated giving effect to the potential dilution that would occur if stock options were exercised or preferred securities converted. The treasury stock method is used to determine the effect of dilutive instruments. Under the treasury stock method, proceeds received from the assumed exercise of in-the-money stock options are used to repurchase common shares at the prevailing market price.

H) Inventories

Product inventories are valued at the lower of average cost and net realizable value on a first-in, first-out basis. Materials and supplies are valued at cost.

I) Full Cost Method of Accounting

The Company follows the full cost method of accounting whereby all costs relating to the exploration for, and the development of, crude oil and natural gas reserves are capitalized on a country by country cost centre basis.

Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proven reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss. Costs of exploration for significant unproven properties, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proven reserves are attributable to the properties, or if impairment has occurred.

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted unescalated future net revenues from proven reserves, plus unimpaired unproven property costs, less future development costs, related production, site restoration, interest and general and administrative costs, and applicable taxes. The ceiling test calculations utilize the Company's year end product prices.

J) Depreciation of Plant and Equipment

Depreciation of crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Midstream facilities and other assets are depreciated on a straight line basis over the estimated service lives of the assets which range from 20 years to 25 years.

K) Amortization of Deferred Charges and Other Assets

Amortization of deferred charges and other assets is provided for, where applicable, on a straight line basis over the estimated useful lives of the assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) Future Dismantlement and Site Restoration Costs

Estimated future dismantlement and site restoration costs of crude oil and natural gas assets are provided for using the unit of production method. Such costs for natural gas liquid extraction facilities are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

M) Capitalization of Costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

N) Stock Options

The Company has a stock-based compensation plan as described in Note 15 – Stock Options. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

O) Derivative Instruments

Derivative instruments are used by the Company to hedge its exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Gains and losses on derivative instruments used as hedges are recognized in the period that the hedged instrument is settled by netting the gain or loss against the income or expense item that is hedged. Gains or losses realized on the termination of derivative instruments prior to their maturity are deferred and recognized in the period that the item that was hedged by the terminated instrument is recognized in income. Unrealized gains and losses on derivative instruments used to convert the Canadian dollar principal of long term debt to U.S. dollars are amortized into income over the term of the related debt instrument.

Gains and losses on derivative instruments utilized by the marketing and midstream segment which are not designated as hedges are recognized in income in the current period.

P) Reclassifications

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2001.

2. CHANGES IN ACCOUNTING POLICIES

A) Net Income Attributable Per Common Share

In 2001, the Company retroactively adopted the new Canadian Institute of Chartered Accountants earnings per share standard. The new standard relates to the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used, instead of the imputed earnings method, to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, proceeds from assumed exercise of in-the-money stock options are used to repurchase common shares at the prevailing market price.

In computing the diluted net income attributable per common share, 6.0 million shares were added to the weighted average number of common shares during the year ended December 31, 2001 (2000 – 4.4 million shares, 1999 – 4.3 million shares) for the dilutive effect of stock options and preferred securities. In addition, the distributions on preferred securities were added back to net income attributable to common shareholders in computing diluted per share amounts.

The effect on prior periods' diluted net income attributable per common share, which has been restated for this change, is immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

B) Risk Management

Effective January 1, 2001, the Company prospectively adopted mark-to-market accounting for all the Company's financial and physical positions in the Marketing and Midstream business segment. The effect of the change on current and prior period earnings is immaterial.

3. CORPORATE REORGANIZATION

On February 13, 2001, Canadian Pacific Limited ("CPL") announced a reorganization whereby its 85% interest in PanCanadian Petroleum Limited would be distributed to CPL common shareholders by a Plan of Arrangement. Following shareholder and court approvals, the Arrangement was implemented on October 1, 2001, and PanCanadian Petroleum Limited became a wholly owned subsidiary of the new public company, PanCanadian Energy Corporation. Effective January 1, 2002, these companies were amalgamated and continued under the name of PanCanadian Energy Corporation.

As part of the CPL reorganization, the Company paid a Special Dividend of \$1,180 million (\$4.60 per common share) on September 14, 2001. The amounts shown as dividends on the Consolidated Statements of Retained Income and Cash Flows include both the Special Dividend and the regular quarterly dividend.

4. SEGMENTED INFORMATION

The Company uses the management approach to reporting segmented information. This reflects the way management has organized the segments within the Company for making operating decisions and assessing performance.

The Company has identified two reportable operating segments based on the segment reports management uses for making operating decisions and assessing performance. The Upstream operating segment includes the results of the five business units and the Company's interest in the Petrovera Resources partnership. The Marketing and Midstream operating segment has two divisions. The Midstream division is responsible for gas processing, NGL extraction and power generation, together with pipeline and storage facilities. The Marketing division markets natural gas, crude oil, NGL and electricity for third parties as well as virtually all of the Company's own production. Incremental margins or losses earned relative to the market based transfer prices, on the Company's own production of natural gas, crude oil, and field NGL, are included in Marketing and Midstream income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SEGMENTED INFORMATION (Continued)

	For the year ended December 31		
	2001	2000	1999
	(\$ millions)		
Statement of Income			
Upstream			
Revenues			
Gas	\$ 2,380	\$1,622	\$ 781
Oil – light/medium	889	1,044	628
Oil – heavy	133	252	167
Field liquids	137	151	64
Processing and other income	15	21	14
Royalties and similar payments	(303)	(259)	(138)
	<u>3,251</u>	<u>2,831</u>	<u>1,516</u>
Expenses			
Direct			
Gas and related products	181	122	100
Oil – light/medium	179	162	152
Oil – heavy	75	73	66
Gas processing – royalty interest	10	10	14
	<u>445</u>	<u>367</u>	<u>332</u>
Administrative	70	65	55
Depletion, depreciation and amortization	828	753	605
	<u>1,343</u>	<u>1,185</u>	<u>992</u>
Upstream income	<u>1,908</u>	<u>1,646</u>	<u>524</u>
Marketing and Midstream			
Revenues			
Marketing	9,849	6,911	3,688
Midstream	267	314	193
	<u>10,116</u>	<u>7,225</u>	<u>3,881</u>
Expenses			
Direct			
Marketing	9,673	6,785	3,630
Midstream	228	229	150
	<u>9,901</u>	<u>7,014</u>	<u>3,780</u>
Administrative	74	60	40
Depreciation and amortization	28	22	20
	<u>10,003</u>	<u>7,096</u>	<u>3,840</u>
Marketing and Midstream income	<u>113</u>	<u>129</u>	<u>41</u>
Income before corporate activities	<u>2,021</u>	<u>1,775</u>	<u>565</u>
Interest and other revenues	46	1	9
Interest expense on long term debt	(98)	(90)	(91)
Corporate administrative expenses*	(13)	–	–
	<u>1,956</u>	<u>1,686</u>	<u>483</u>
Income before income taxes	652	647	133
Consolidated net income	<u>\$ 1,304</u>	<u>\$1,039</u>	<u>\$ 350</u>

* 2001 corporate administrative expenses include \$13 million for costs associated with the reorganization of CPL as described in Note 3 – Corporate Reorganization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SEGMENTED INFORMATION (Continued)

Reconciliation of Segment Results to the Consolidated Income Statement

For the year ended December 31, 2001					
	Upstream	Marketing and Midstream	Corporate (\$ millions)	Inter-segment Eliminations*	Consolidated Total
Revenues	\$3,251	\$10,116	\$ 46	\$(3,315)	\$10,098
Expenses					
Direct	445	9,901	—	(3,315)	7,031
Administrative	70	74	13	—	157
Interest on long term debt	—	—	98	—	98
Depletion, depreciation and amortization	828	28	—	—	856
Income before income taxes	<u>\$1,908</u>	<u>\$ 113</u>	<u>\$(65)</u>	<u>\$ —</u>	<u>\$ 1,956</u>
For the year ended December 31, 2000					
	Upstream	Marketing and Midstream	Corporate (\$ millions)	Inter-segment Eliminations*	Consolidated Total
Revenues	\$2,831	\$ 7,225	\$ 1	\$(2,730)	\$ 7,327
Expenses					
Direct	367	7,014	—	(2,730)	4,651
Administrative	65	60	—	—	125
Interest on long term debt	—	—	90	—	90
Depletion, depreciation and amortization	753	22	—	—	775
Income before income taxes	<u>\$1,646</u>	<u>\$ 129</u>	<u>\$(89)</u>	<u>\$ —</u>	<u>\$ 1,686</u>
For the year ended December 31, 1999					
	Upstream	Marketing and Midstream	Corporate (\$ millions)	Inter-segment Eliminations*	Consolidated Total
Revenues	\$1,516	\$ 3,881	\$ 9	\$(1,465)	\$ 3,941
Expenses					
Direct	332	3,780	—	(1,465)	2,647
Administrative	55	40	—	—	95
Interest on long term debt	—	—	91	—	91
Depletion, depreciation and amortization	605	20	—	—	625
Income before income taxes	<u>\$ 524</u>	<u>\$ 41</u>	<u>\$(82)</u>	<u>\$ —</u>	<u>\$ 483</u>

* Inter-segment eliminations represent the sales of natural gas, crude oil and NGL from the Upstream segment to the Marketing and Midstream segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SEGMENTED INFORMATION (Continued)

	For the year ended December 31		
	2001	2000	1999
	(\$ millions)		
Additions to capital assets and goodwill, net			
Upstream	\$ 1,670	\$2,181	\$ 774
Marketing and midstream*	155	163	18
	<u>\$ 1,825</u>	<u>\$2,344</u>	<u>\$ 792</u>

* 2000 Marketing and midstream additions included \$7 million for goodwill.

Selected Balance Sheet Disclosure

	As at December 31, 2001			
	Upstream	Marketing and Midstream	Corporate and Eliminations	Consolidated Total
	(\$ millions)			
Cash*	\$ —	\$ —	\$ 963	\$ 963
Non-cash current assets	447	1,290	(325)	1,412
Property, plant and equipment, net	7,687	484	—	8,171
Other assets and deferred charges	187	23	103	313
Total identifiable assets	<u>\$ 8,321</u>	<u>\$ 1,797</u>	<u>\$ 741</u>	<u>\$ 10,859</u>
Current liabilities*	<u>\$ (489)</u>	<u>\$ (1,040)</u>	<u>\$ (535)</u>	<u>\$ (2,064)</u>

	As at December 31, 2000			
	Upstream	Marketing and Midstream	Corporate and Eliminations	Consolidated Total
	(\$ millions)			
Cash*	\$ —	\$ —	\$ 197	\$ 197
Non-cash current assets	700	1,419	(688)	1,431
Property, plant and equipment, net	6,755	342	—	7,097
Other assets and deferred charges	192	45	80	317
Total identifiable assets	<u>\$ 7,647</u>	<u>\$ 1,806</u>	<u>\$ (411)</u>	<u>\$ 9,042</u>
Current liabilities*	<u>\$ (387)</u>	<u>\$ (1,296)</u>	<u>\$ 222</u>	<u>\$ (1,461)</u>

	As at December 31, 1999			
	Upstream	Marketing and Midstream	Corporate and Eliminations	Consolidated Total
	(\$ millions)			
Cash*	\$ —	\$ —	\$ 132	\$ 132
Non-cash current assets	411	634	(353)	692
Property, plant and equipment, net	5,234	214	—	5,448
Other assets and deferred charges	52	25	35	112
Total identifiable assets	<u>\$ 5,697</u>	<u>\$ 873</u>	<u>\$ (186)</u>	<u>\$ 6,384</u>
Current liabilities*	<u>\$ (288)</u>	<u>\$ (467)</u>	<u>\$ 136</u>	<u>\$ (619)</u>

* Current liabilities excludes short-term financing and the current portion of long-term debt. Cash and income taxes payable have been included in the Corporate and Elimination balances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SEGMENTED INFORMATION (Continued)

Geographic Segments

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions)		
Revenues			
Canada	\$ 3,240	\$2,676	\$1,314
Exports to United States	1,216	1,063	604
Total Canada	<u>4,456</u>	<u>3,739</u>	<u>1,918</u>
United States	5,444	3,442	2,024
Other	198	146	(1)
	<u>\$10,098</u>	<u>\$7,327</u>	<u>\$3,941</u>

Revenues are allocated to geographic segments based on the origin of the product sale.

Capital Assets and Goodwill

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions)		
Canada	\$ 6,687	\$5,926	\$5,079
United States	1,044	744	170
Other	455	445	211
	<u>\$ 8,186</u>	<u>\$7,115</u>	<u>\$5,460</u>

Major Customers

The Company does not rely on any one customer for 10% or more of its revenue.

5. INCOME TAXES

The statutory rates of income taxes are reconciled to the effective rates as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions)		
Income before income taxes	\$1,956	\$1,686	\$ 483
Statutory rate	42.8%	44.7%	44.7%
Expected income taxes	\$ 837	\$ 754	\$ 216
Increase (decrease) resulting from:			
Provincial royalties and other levies	113	104	58
Resource allowance	(258)	(245)	(118)
Benefit of provincial rate reductions	(81)	—	—
Future benefit of U.S. net operating losses recognized	—	—	(22)
Other	41	34	(1)
	<u>\$ 652</u>	<u>\$ 647</u>	<u>\$ 133</u>
Effective rate	<u>33.3%</u>	<u>38.4%</u>	<u>27.5%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INCOME TAXES (Continued)

The temporary differences comprising the future income tax liability are as follows:

	<u>2001</u>	<u>2000</u>
	(\$ millions)	
Petroleum and natural gas properties	\$1,146	\$1,449
Timing of partnership items	333	76
Plant, production equipment and other	716	665
Income tax losses	<u>(135)</u>	<u>(265)</u>
	<u>\$2,060</u>	<u>\$1,925</u>

The Company's federal net operating losses will expire in the following years:

	<u>United States</u>
	(\$ millions)
2004	\$ 12
2005	13
2006	3
2007	58
2008 and thereafter	<u>261</u>
	<u>\$347</u>

The Company's income tax pools in Canada, the United States, and other countries total approximately \$3,203 million, \$965 million and \$148 million respectively.

During 2001, the Company changed the method of classifying current and future income taxes with respect to consolidated partnerships that have a later year end than the Company. Under the revised method, the current income tax provision includes amounts payable or recoverable in respect of the partnerships' income included in the consolidated financial statements. Previously, these amounts were included in current taxes when payable. This change had no effect on total tax expense, net income or cash from operating activities but reduced cash flow in 2001 by \$295 million (2000 – \$170 million, 1999 – \$nil).

6. RELATED PARTY TRANSACTIONS

In 2001, the Company paid \$50 million relating to a previously contracted purchase price adjustment in respect of \$200 million of capital losses acquired in 1997 from a subsidiary of CPL (the majority shareholder of the Company prior to the corporate reorganization as described in Note 3). The purchase price adjustment, which was contingent on certain economic events, has been recorded as a charge to retained income.

Prior to the corporate reorganization, as described in Note 3, the Company purchased materials and utilized services from other companies with which it was affiliated. All such transactions have been conducted on an arm's length basis and are not material in relation to the Company's overall activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. NET CHANGE IN NON-CASH WORKING CAPITAL

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions)		
Cash provided by (used for):			
Operating activities			
Accounts receivable	\$ 472	\$(743)	\$(120)
Risk management assets	(414)	—	—
Inventories	(39)	5	(31)
Accounts payable and accrued liabilities	(306)	566	91
Income taxes payable	475	176	5
Risk management liabilities	378	—	—
Working capital acquired	(2)	(62)	—
	<u>\$ 564</u>	<u>\$ (58)</u>	<u>\$ (55)</u>
Financing activities			
Distribution payable on preferred securities	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>
Investing activities			
Accounts payable and accrued liabilities	<u>\$ 88</u>	<u>\$ 42</u>	<u>\$ 95</u>

8. NET (ACQUISITIONS) DISPOSITIONS

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(\$ millions)		
Net (acquisitions) dispositions consist of:			
Montana Power	—	(689)	—
Scott and Telford	—	(259)	—
Other	136	140	33
	<u>136</u>	<u>(808)</u>	<u>33</u>

During 2000, the Company purchased the petroleum and natural gas exploration, production, midstream and marketing division of The Montana Power Company. The acquisition was accounted for by the purchase method, and the results reflected in the Company's operations from November 1, 2000.

During 2000, the Company purchased assets consisting of interests in the Scott (13.5%) and Telford (20.2%) producing fields in the United Kingdom central North Sea as well as an interest in exploration lands on block 15/22 (26%) surrounding the Scott/Telford producing unit. The acquisition was accounted for by the purchase method, and the results reflected in the Company's operations from January 7, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. NET (ACQUISITIONS) DISPOSITIONS (Continued)

These acquisitions have been accounted for as follows:

	<u>Montana Power</u>	<u>Scott and Telford</u>
	(\$ millions)	
Net assets acquired		
Working capital	\$ (66)	\$ 4
Property, plant and equipment	790	283
Other assets	77	—
Future income taxes	(91)	(28)
Site restoration costs assumed	(21)	—
Cash consideration paid	<u>\$689</u>	<u>\$259</u>

9. PROPERTY, PLANT AND EQUIPMENT

	<u>2001</u>			<u>2000</u>		
	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Depletion, Depreciation and Amortization</u>	<u>Net</u>
	(\$ millions)					
Petroleum and natural gas properties	\$10,242	\$4,655	\$5,587	\$ 9,111	\$4,213	\$4,898
Plant and equipment	3,904	1,804	2,100	3,418	1,561	1,857
Upstream	14,146	6,459	7,687	12,529	5,774	6,755
Marketing and midstream	605	121	484	452	110	342
	<u>\$14,751</u>	<u>\$6,580</u>	<u>\$8,171</u>	<u>\$12,981</u>	<u>\$5,884</u>	<u>\$7,097</u>

In the year ended December 31, 2001, \$34 million (2000 – \$33 million) of administrative expenses related to exploration and development activities were capitalized as part of upstream expenditures. At December 31, 2001, \$734 million (2000 – \$473 million) of costs in respect of significant unproven properties were excluded from depletable costs.

10. DEFERRED CHARGES AND OTHER ASSETS

	<u>2001</u>	<u>2000</u>
	(\$ millions)	
Long term receivables	\$ 77	\$ 90
Marketing contracts	48	71
Unrealized foreign exchange losses	59	42
Long term debt issue costs	38	4
Deferred pension costs	33	36
Systems development	17	27
Investments	22	23
Other	19	24
	<u>\$313</u>	<u>\$317</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LONG TERM DEBT

		2001	2000
		(\$ millions)	
Bank loans	(Notes A, G)	\$ 37	\$ 37
Commercial paper – unsecured	(Notes B, F)	–	–
Unsecured notes	(Notes C, E)		
7.645% due March 14, 2001 (US\$100)	(Note C1)	–	150
7.9% due January 24, 2002 (US\$50)	(Note G)	80	75
8.1% due May 22, 2002 (US\$50)	(Note G)	80	75
5.5% due March 17, 2003	(Notes C2, G)	100	100
8.4% due December 15, 2004	(Notes C3, G)	100	100
7.5% due August 25, 2006	(Notes C4, G)	100	100
5.8% due June 2, 2008	(Note C5)	225	225
6.3% due November 1, 2011 (US\$500)		798	–
7.2% due November 1, 2031 (US\$350)		558	–
		2,041	825
Unsecured debentures			
8.75% due November 9, 2005	(Notes D, E, G)	200	200
		2,278	1,062
Less current portion		(160)	(150)
		<u>\$2,118</u>	<u>\$ 912</u>

A) Bank Loans

One of the Company's partnerships has a credit agreement, consisting of a term loan facility, senior secured notes and a levelization account, relating to the construction of a cogeneration plant. The term loan bears interest at the prevailing prime lending rate plus 0.25%. The notes bear interest at the prevailing prime lending rate plus 1.25%. The partnership also has an option under the credit agreement to use an average Bankers' Acceptances (BA) rate plus a margin that will vary during the term. The levelization account accumulates interest at the yield rate of the most recent Government of Canada bond issue with a 20-year maturity as of January 20 each year. The term loan and senior notes are secured by the project facilities.

B) Commercial Paper

The Company maintains a commercial paper program with an authorized maximum principal amount of \$300 million, or the equivalent in foreign currencies. Commercial paper issued under this program has a maximum term of 365 days and bears interest at prevailing market rates.

C) Unsecured Notes

The Company's medium term note program was renewed in 2001 and has an authorized principal amount of \$1 billion. The notes may be denominated in Canadian dollars, or in foreign currencies, and may have maturities greater than nine months from their date of issue. The notes bear interest at either fixed or floating rates, determined by reference to market rates at the date of issue of the notes. No medium term notes have been issued under this program. The medium term notes outstanding prior to 2001 were issued under previous programs. The Company also issued a new US\$1.5 billion debt shelf under the Multijurisdictional Disclosure System in October 2001. It provides that debt securities in U.S. dollars or other foreign currencies may be issued from time to time in one or more series. The 6.3% and 7.2% U.S. notes were issued in October 2001 under this program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LONG TERM DEBT (Continued)

- 1) 7.645% Notes, Due March 14, 2001 – US\$100 Million
With respect to this debt, the Company entered into interest rate swap and option transactions that resulted in an effective fixed interest rate of 6.48% on US\$100 million. This medium term note matured March 14, 2001.
- 2) 5.5% Notes, Due March 17, 2003 – \$100 Million
With respect to this debt, the Company has entered into interest rate swap and option transactions that result in an effective floating interest rate of US three-month London Interbank Offered Rate (“LIBOR”) minus 68 basis points on US\$71 million. The principal is effectively payable at US\$71 million as a result of these swaps.
- 3) 8.4% Notes, Due December 15, 2004 – \$100 Million
With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions that result in an effective floating interest rate of US three-month LIBOR minus 41 basis points on US\$73 million. The principal is effectively payable at US\$73 million as a result of these transactions.
- 4) 7.5% Notes, Due August 25, 2006 – \$100 Million
With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions that result in an effective fixed interest rate of 4.14% on US\$73 million. The principal is effectively payable at US\$73 million as a result of these swaps.
- 5) 5.8% Notes, Due June 2, 2008 – \$225 Million
With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions that result in effective interest rates of 4.80% on US\$71 million and three-month BA minus 5 basis points on \$125 million. The principal is effectively payable at US\$71 million and \$125 million as a result of these swaps.
- D) 8.75% Debentures, Due November 9, 2005 – \$200 Million
With respect to this debt, the Company has entered into a series of interest rate and cross-currency interest rate swap transactions that result in effective fixed interest rates of three-month LIBOR minus 4 basis points on US\$73 million and 4.99% on US\$73 million. The principal is effectively payable at US\$146 million as a result of these swaps.
- E) The Company has agreed that, subject to certain exceptions, it will not create any mortgage or other charge on its assets unless the debentures and medium term notes are secured.
- F) Operating Facilities
The Company has arranged unsecured committed bank lines of credit totalling \$1.75 billion which are available to backstop the commercial paper program and for general corporate purposes. The facilities are revolving facilities and are available in Canadian and U.S. dollar funds. The facilities bear interest at the banks’ prime or U.S. base rates, at BA rates or at LIBOR plus applicable margins.
- G) Long Term Debt Principal Payments Due Within Five Years

	(\$ millions)
7.9% medium term notes, due January 24, 2002 (US\$50)	\$ 80
8.1% medium term notes, due May 22, 2002 (US\$50)	80
5.5% medium term notes, due March 17, 2003	100
8.4% medium term notes, due December 15, 2004	100
8.75% debentures, due November 9, 2005	200
7.5% medium term notes, due August 25, 2006	100
Bank loans (2002 through 2006)	8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. DEFERRED CREDITS AND LIABILITIES

	2001	2000
	(\$ millions)	
Future dismantlement and site restoration costs	\$273	\$207
Foreign exchange hedges	107	66
Marketing contracts	11	40
Deferred hedging amounts	11	38
Deferred pension liabilities	19	15
Other	38	22
	459	388
Less current portion	(40)	(73)
	<u>\$419</u>	<u>\$315</u>

13. PREFERRED SECURITIES

On March 23, 1999, the Company issued \$126 million of Coupon Reset Subordinated Term Securities – Series A due March 23, 2034. Interest is payable semi-annually at a rate of 7% per annum for the first five years and is reset at the Five Year Government of Canada Yield plus 2% on each fifth anniversary of the date of issuance. The securities are redeemable by the Company, in whole or in part, at any time on or after March 23, 2004, at par plus accrued and unpaid interest. The Company has the right to defer, subject to certain conditions, interest for a period of up to five years. The Company may also satisfy its obligation to pay deferred interest, the redemption amount, or the principal amount by delivering sufficient common shares, preferred shares, or other non-redeemable preferred shares to the Trustee.

With respect to the preferred securities, the Company entered a series of option transactions that result in an effective floating interest rate equal to that of three-month BA plus 104 basis points on \$126 million. The principal is effectively payable at \$126 million.

The Company recognized \$7 million (\$4 million, net of tax) for distributions on the preferred securities in 2001 compared with \$9 million (\$5 million, net of tax) in 2000 and \$6 million (\$4 million, net of tax) in 1999. These distributions, net of tax, have been recorded as a direct charge to retained income.

14. COMMON SHARES

The Company's authorized share capital consists of an unlimited number of common shares.

	2001		2000	
Issued and outstanding	Number of Shares	(\$ millions)	Number of Shares	(\$ millions)
Balance at January 1	254,831,392	\$148	251,771,682	\$ 62
Issued under stock option plan	1,912,480	48	3,355,110	86
Repurchase of common shares	(172,900)	–	(295,400)	–
Adjustments due to corporate reorganization	(1,631,121)	–	–	–
Balance at December 31	<u>254,939,851</u>	<u>\$196</u>	<u>254,831,392</u>	<u>\$148</u>

In March 2000, the Company announced a program to repurchase, in a 12-month period, up to 12.6 million of its common shares, representing approximately 5% of its then outstanding common shares. In October 2001, the Company announced a new program to repurchase, in a 12-month period, up to 12.7 million of its common shares, representing approximately 5% of its then outstanding common shares. The amounts and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. COMMON SHARES (Continued)

timing of repurchases are at the Company's discretion, and under the current program, can be made until October 2, 2002, at the prevailing market prices on the Toronto and New York stock exchanges.

During 2001, the Company implemented a small shareholder selling program that enables shareholders who owned 99 or fewer common shares of PanCanadian as of October 5, 2001 to sell their shares without incurring any brokerage commission. The program expires on March 5, 2002.

In 2001, 0.2 million (2000 – 0.3 million, 1999 – nil) shares were repurchased under these programs for \$7 million (2000 – \$8 million, 1999 – nil). The cost of the repurchases was substantially charged to Paid in surplus.

15. STOCK OPTIONS

PanCanadian Plan

Pursuant to the terms of a stock option plan adopted October 1, 2001 by PanCanadian Energy Corporation and previously established by PanCanadian Petroleum Limited in 1988, and revised in 1997, options may be granted to certain key employees to purchase common shares of the Company. Options granted prior to February 27, 1997, are exercisable at half the number of options granted after two years and are fully exercisable after three years. The options expire 10 years after the date granted. Options granted on or after February 27, 1997, and prior to November 4, 1999, are exercisable after three years and expire five years after the date granted. Options granted on or after November 4, 1999, are exercisable at 30% of the number granted after one year, an additional 30% of the number granted after two years, are fully exercisable after three years and expire five years after the date granted. For stock options granted after February 27, 1997, and prior to November 4, 1999, the employees can surrender their options in exchange for, at the election of the Company, cash or a payment in Company stock for the difference between the market price and exercise price. Option exercise prices approximate the market price for the common shares on the date the options are issued. In the event of a change in control of the Company, all outstanding options become immediately exercisable. The CPL reorganization, as described in Note 3, resulted in no changes to this plan other than the adoption of such plan by PanCanadian Energy Corporation.

CPL Replacement Plan

As part of the CPL reorganization, as described in Note 3, CPL stock options were replaced with stock options granted by PanCanadian in a manner that was consistent with the provisions of the CPL stock option plan. Under CPL's stock option plan, options were granted to certain key employees to purchase common shares of CPL at a price not less than the market value of the shares at the grant date. The options expire 10 years after the grant date and, as a result of the reorganization, are all exercisable.

Directors Plan

Effective October 1, 2001, the Company adopted a directors stock option plan. Under the terms of the plan, new non-employee directors are given an initial grant of 8,000 options to purchase common shares of the Company. Thereafter, there is an annual grant of 4,000 options to each non-employee director. These options, which expire five years after the grant date, are 100% exercisable on the earlier of the next annual general meeting following the grant date and the first anniversary of the grant date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. STOCK OPTIONS (Continued)

	2001		2000	
	Number of Options	Weighted Average Exercise Price (\$/Share)	Number of Options	Weighted Average Exercise Price (\$/Share)
Continuity of stock options				
Outstanding at January 1	6,953,850	\$22.61	9,866,360	\$23.36
Granted under PanCanadian plan	4,531,350	48.08	826,900	25.77
Granted under CPL replacement plan	1,502,079	22.83	—	—
Granted under Directors plan	80,000	39.60	—	—
Exercised	(1,912,480)	25.82	(3,355,110)	25.53
Cancelled	(643,621)	37.04	(384,300)	23.05
Outstanding at December 31*	10,511,178	\$32.31	6,953,850	\$22.61
Exercisable at December 31*	3,241,753	\$22.92	2,544,200	\$25.62
Authorized				
PanCanadian plan	18,900,000		18,900,000	
CPL replacement plan	1,700,000		—	
Directors plan	500,000		—	
	21,100,000		18,900,000	
Available for future grant at December 31*	2,947,940		6,478,690	

* Stock options outstanding and exercisable include options under the PanCanadian plan, CPL replacement plan and Directors plan. Stock options available for future grant include options under the PanCanadian plan and Directors plan only.

The following table summarizes information about the Company's outstanding stock options as at December 31, 2001:

Range of Exercise Prices (\$/Share)	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price (\$/Share)	Weighted Average Years to Expiry	Number of Options	Weighted Average Exercise Price (\$/Share)
\$12.50 to \$19.99	2,757,140	\$18.75	2.5	669,390	\$18.17
\$20.00 to \$24.99	2,462,484	22.15	3.6	1,676,919	22.41
\$25.00 to \$43.99	1,310,804	30.93	3.5	895,444	27.42
\$44.00 to \$49.00	3,980,750	48.44	4.2	—	—
	10,511,178	\$32.31	3.5	3,241,753	\$22.92

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. EMPLOYEE FUTURE BENEFITS

Substantially all of the Company's employees are eligible to participate in the Company's pension plan, which provides a choice of defined benefit or defined contribution options. The majority of employees participate in the defined contribution option. To the extent that statutory regulations limit pension benefits under the plan, the Company maintains a non-contributory supplemental plan. In addition, the Company provides a post-retirement benefits plan.

During 2001, the Company reviewed the pension plan and amended the plan text to provide enhanced benefits.

Information regarding the defined benefit obligation, plan assets and the amount recognized in the Consolidated Balance Sheet is as follows:

	2001		2000	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
	(\$ millions)			
Plan assets				
Fair value at January 1	\$144	\$ -	\$151	\$ -
Plan acquisition*	3	-	-	-
Experience gain	3	-	-	-
Employer contributions	1	-	1	-
Return on plan assets	(2)	-	5	-
Transfers to defined contribution plan	(9)	-	(6)	-
Benefit payments	(7)	-	(7)	-
Fair value at December 31	133	-	144	-
Accrued benefit obligation				
Balance at January 1	109	6	101	5
Plan acquisition*	4	-	-	-
Plan amendments	4	-	-	-
Current service costs	2	1	2	-
Interest costs	8	-	7	-
Actuarial losses	7	1	6	1
Benefit payments	(7)	-	(7)	-
Balance at December 31	127	8	109	6
Plan surplus (deficit)	6	(8)	35	(6)
Unamortized net losses	28	2	12	-
Past service costs	4	-	-	-
Net transitional (asset) liability	(22)	4	(25)	5
Accrued benefit asset (liability)**	\$ 16	\$ (2)	\$ 22	\$ (1)

The above information includes unfunded obligations for the Company's supplemental pension plan and post-retirement benefits plan. At December 31, 2001, the estimated unfunded obligations for the supplemental pension and post-retirement benefits plans were \$23 million and \$8 million (2000 - \$19 million and \$6 million), respectively.

* The information provided for 2001 includes the pension plan assets and obligations related to the acquisition of The Montana Power Company assets in late 2000.

** The net accrued benefit asset on the Consolidated Balance Sheet is included in deferred charges and other assets offset by deferred credits and liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. EMPLOYEE FUTURE BENEFITS (Continued)

The actuarial assumptions utilized in measuring the accrued benefit obligation are as follows:

	2001		2000	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Discount rate	6.5%	6.5%	7.0%	7.0%
Expected long term rate of return	7.0%		7.0%	
Rate of compensation increase	4.0%		4.0%	

For purposes of measuring the expected cost of benefits, the annual rate of increase in per capita health care benefits was assumed to be 9% from 2002 to 2006, and 5% thereafter.

The net expense (recovery) for the defined benefit pension and other benefits is as follows:

	2001		2000	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
	(\$ millions)			
Current service costs	\$ 2	\$ 1	\$ 2	\$ -
Interest costs	8	-	7	-
Expected return on plan assets	(10)	-	(10)	-
Amortization				
Transitional (asset) liability	(3)	-	(3)	1
Past service cost	1	-	-	-
	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ 1</u>

In 2001, the expected average remaining service life was eight years for employees covered by the defined benefit pension plans, and 13 years for employees covered by the other benefit plans.

The expense related to the Company's defined contribution plan was \$9 million in 2001, and \$6 million in 2000 and 1999.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Unrecognized gains (losses) on risk management activities are as follows:

	December 31, 2001	December 31, 2000
	(\$ millions)	
Natural gas	\$ 145	\$(191)
Crude oil	12	81
Foreign currency	(187)	(165)
Interest rates	9	21
Preferred securities	8	2
	<u>\$ (13)</u>	<u>\$(252)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

A) Commodity Price Risk Management

Natural Gas

The Company has fixed the prices on a portion of its 2002 production. Under these transactions, the Company receives fixed prices and pays floating index prices as follows as at December 31, 2001:

Index	Term	Currency	Price	Volume (MMCF/D)	Unrecognized Gain (\$ millions)
AECO	Jan 2002 to Oct 2002	Cdn\$/mcf	5.83	191	\$125
Malin	Jan 2002 to Oct 2002	US\$/mcf	5.46	14	20
				205	\$145

Crude Oil

The Company has entered into transactions to fix sales prices on approximately 12,500 barrels per day of Canadian crude oil for the first half of 2002. Under these transactions, the Company receives a fixed U.S. dollar price and pays floating West Texas Intermediate prices as follows as at December 31, 2001:

	Volume (BBL/D)	Fixed Price (US\$/BBL)	Unrecognized Gain (\$ millions)
January to March 2002	15,000	23.78	\$ 8
April to June 2002	10,000	23.57	4
			\$12

Furthermore, the Company enters crude oil spread transactions as part of its program to reduce pipeline and inventory operational risks. At December 31, 2001, the unrecognized net gain on these positions was not significant.

B) Foreign Currency Risk Management

The following forward foreign currency exchange contracts were in place to hedge future commodity revenue streams as at December 31, 2001:

	Amount Hedged (US\$ millions)	Average Exchange Rate (Cdn\$/US\$)	Unrecognized Loss (Cdn\$ millions)
2002	\$422	\$0.747	\$(107)
2003	332	0.718	(64)
2004	88	0.715	(16)
Total	\$842	\$0.732	\$(187)

C) Interest Rate Risk Management

PanCanadian has entered into various derivative contracts to manage the Company's interest rate and foreign currency exposure on debt instruments. The impact of these transactions is described in Note 11 –

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Long Term Debt. The unrecognized gains (losses) on the outstanding financial instruments as at December 31, 2001 are:

<u>Original debt instrument</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(\$ millions)		
5.5% medium term notes	\$ (6)	\$ 4	\$(2)
8.4% medium term notes	(8)	11	3
7.5% medium term notes	(10)	12	2
5.8% medium term notes	(8)	7	(1)
8.75% debenture	(18)	25	7
	<u>\$(50)</u>	<u>\$59</u>	<u>\$ 9</u>

D) Preferred Securities Risk Management

The Company has entered into a derivative contract to manage its rate exposure on preferred securities distributions. The impact of this transaction is described in Note 13 – Preferred Securities. The unrecognized gain on the financial instrument as at December 31, 2001 is:

<u>Original instrument</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(\$ millions)		
Preferred securities	<u>\$ –</u>	<u>\$ 8</u>	<u>\$ 8</u>

E) Fair Value of Financial and Derivative Instruments

The following table summarizes the carrying amounts and the fair values at December 31 of the Company's financial instruments:

	<u>2001</u>		<u>2000</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(\$ millions)			
Financial assets				
Cash and cash equivalents	\$ 963	\$ 963	\$ 197	\$ 197
Accounts receivable and risk management assets	1,255	1,255	1,313	1,313
Financial liabilities				
Short term financing	–	–	(250)	(250)
Accounts payable, income taxes payable and risk management liabilities	(2,024)	(2,024)	(1,388)	(1,388)
Long term debt	(2,278)	(2,237)	(1,062)	(1,094)
Derivative instruments				
Natural gas financial instruments	–	144	–	(190)
Crude oil financial instruments	–	12	–	78
Forward foreign currency contracts	–	(192)	–	(189)
Interest rate swaps and options	–	(24)	–	(6)
	<u>\$(2,084)</u>	<u>\$(2,103)</u>	<u>\$(1,190)</u>	<u>\$(1,529)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

i) The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- For certain of the Company's financial instruments, including cash, accounts receivable, risk management assets, short term financing, accounts payable, income taxes payable and risk management liabilities, the carrying amounts approximate the fair value because of the immediate or short term maturity of these financial instruments.
- The fair value of publicly traded long term debt is determined based upon market prices.
- The fair value of derivative instruments is estimated as the discounted unrealized gain or loss calculated based on market prices or rates.
- Although commodity futures are not financial instruments, they have been included as they would represent a financial liability if terminated.

ii) Timing differences occur between the realization of gains or losses on derivative instruments and their recognition in the financial statements. These timing differences, along with the effect of discounting, represent the difference between unrecognized gains or losses and the fair values of the derivative instruments. At December 31, 2001, the following timing differences between the realization and recognition of gains or losses on derivative instruments existed:

- \$14 million of realized swaption gains are unrecognized at December 31, 2001, and will be amortized into interest expense or preferred securities distributions over the remaining life of the applicable instrument to which the swaptions relate. This will have the effect of reducing future accounting interest expense and distributions.
- \$83 million of exchange rate losses, related to swaps of Canadian dollar denominated long term debt into U.S. dollars, will not be realized until debt maturity. For accounting purposes, these losses are deferred and amortized into interest expense over the life of each debt instrument. \$33 million of the losses have been recognized in the current and previous years' consolidated statements of income.
- \$11 million of currency hedging losses were recorded in 1999, as part of historical rate rollover transactions. These transactions effectively closed the existing contracts, but deferred cash settlement to future years as part of new foreign currency forward contracts. As a result, these unrealized losses have been reflected in the fair value of the foreign currency forward contracts, but the losses have been recognized for accounting purposes.

iii) The Company has sold call options on 113,600 cubic feet per day of AECO natural gas for the period November 2001 to October 2002 at an average strike price of \$6.05 per thousand cubic feet. The options are accounted for on a mark-to-market basis and included in the carrying amount and fair value of risk management liabilities.

F) Credit Risk

The Company is exposed to credit related losses in the event of default by counterparties to financial instruments. The Company does not expect any counterparties to fail to meet their obligations because of credit policies that limit transactions to counterparties of high credit quality. In addition, the Company does not believe that there are any significant concentrations of credit risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. COMMITMENTS

The future commitments under operating leases for office space, equipment and a semi-submersible drilling rig, and agreements for the purchase of oil and gas pipeline transportation, oil storage, and carbon dioxide, and for the construction of power generation facilities, at December 31, 2001, were as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007-2023</u>	<u>Total</u>
			(\$ millions)				
Operating leases	\$ 71	\$130	\$ 29	\$ 27	\$ 23	\$104	384
Other commitments	192	168	180	185	168	844	1,737
	<u>\$263</u>	<u>\$298</u>	<u>\$209</u>	<u>\$212</u>	<u>\$191</u>	<u>\$948</u>	<u>\$2,121</u>

Various lawsuits are pending against the Company. Actual liability with respect to these lawsuits is not determinable, but management believes, based on counsels' opinions, that any potential liability will not materially affect the Company's financial position.

19. SUBSEQUENT EVENT

On January 27, 2002, PanCanadian and Alberta Energy Company Ltd. ("AEC") announced plans to merge their companies to create EnCana Corporation. The proposed merger is to be accomplished through a plan of arrangement involving AEC common shareholders and AEC option holders (the "Merger Arrangement") under the *Business Corporations Act* (Alberta). The Merger Arrangement includes a common share exchange, pursuant to which common shareholders of AEC would receive 1.472 common shares of PanCanadian for each common share of AEC held. On completion of the Merger Arrangement, PanCanadian shareholders would own approximately 54% and AEC shareholders would own approximately 46% of PanCanadian, which would change its name to EnCana Corporation. AEC would become a wholly-owned subsidiary of EnCana Corporation. Subject to obtaining necessary approvals of the shareholders of both companies, the Court of Queen's Bench of Alberta and appropriate regulatory and other authorities, the Merger Arrangement is anticipated to close early in April 2002.

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) and, in most respects, conform to accounting principles generally accepted in the United States (US GAAP). The significant measurement differences between Canadian and US GAAP are described within this note. There are no significant differences on the Consolidated Statement of Cash Flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles (Continued)

Reconciliation of Net Income Under Canadian GAAP to US GAAP

		For the years ended December 31		
		2001	2000	1999
		(\$ millions, except amounts per share)		
Net income – Canadian GAAP		\$ 1,304	\$1,039	\$ 350
Increased (decreased) by:				
Employee future benefits	(Note A)	–	1	(2)
Foreign exchange gain (loss) on long term debt	(Note B)	(17)	(18)	85
Full cost accounting	(Note C)	(140)	8	9
Distributions on preferred securities	(Note D)	(4)	(5)	(4)
Derivative instruments	(Note E)	141	(60)	171
Stock-based compensation	(Note F)	(15)	–	–
Future income taxes	(Note G)	(6)	(52)	(89)
Net income – US GAAP		<u>\$ 1,263</u>	<u>\$ 913</u>	<u>\$ 520</u>
Net income per common share – US GAAP		<u>\$ 4.94</u>	<u>\$ 3.61</u>	<u>\$2.07</u>
Diluted net income per common share – US GAAP		<u>\$ 4.85</u>	<u>\$ 3.57</u>	<u>\$2.05</u>
Comprehensive income				
Net income – US GAAP		<u>\$ 1,263</u>	<u>\$ 913</u>	<u>\$ 520</u>
Cumulative effect type adjustment – fair value of cash flow hedging instruments at January 1	(Notes E,H)	(117)	–	–
Change in fair value of cash flow hedging instruments	(Notes E,H)	<u>107</u>	<u>–</u>	<u>–</u>
Other comprehensive income, before tax	(Note H)	(10)	–	–
Future income taxes	(Note G)	<u>4</u>	<u>–</u>	<u>–</u>
Other comprehensive income	(Note H)	<u>(6)</u>	<u>–</u>	<u>–</u>
Comprehensive income – US GAAP		<u>\$ 1,257</u>	<u>\$ 913</u>	<u>\$ 520</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles (Continued)

Condensed Consolidated Balance Sheet

		As at December 31			
		2001		2000	
		Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
		(\$ millions)			
Assets					
Current assets	(Note E)	\$ 2,375	\$ 2,579	\$1,628	\$1,628
Property, plant and equipment, net	(Note C)	8,171	7,971	7,097	7,036
Deferred charges and other assets	(Note B)	313	272	317	280
		<u>\$10,859</u>	<u>\$10,822</u>	<u>\$9,042</u>	<u>\$8,944</u>
Liabilities and Shareholders' Equity					
Current liabilities	(Note E)	\$ 2,224	\$ 2,348	\$1,861	\$1,861
Long term debt	(Note D)	2,118	2,244	912	1,038
Deferred credits and liabilities	(Notes B,E)	419	538	315	472
Future income taxes	(Note G)	2,060	1,970	1,925	1,833
Shareholders' equity	(Notes D,F,H)	4,038	3,722	4,029	3,740
		<u>\$10,859</u>	<u>\$10,822</u>	<u>\$9,042</u>	<u>\$8,944</u>

Notes:

A) Employee Future Benefits

Prior to 2000, there was a difference between Canadian and US GAAP in accounting for pension and other post-employment benefits.

Under US GAAP, the discount rate used for computing the benefit obligation and the service and interest cost components of the net periodic pension expense is the rate at which the pension benefits could be currently settled. Prior to 2000, the Canadian GAAP discount rate was based on management's best estimate of the future return on the plan assets.

Prior to 2000, the Company recognized the cost of providing other post-employment benefits as they were paid. US GAAP requires these costs to be recognized on an accrual basis during the service period of the employees.

Effective January 1, 2000, the Company prospectively adopted the new Canadian accounting standard for Employee Future Benefits eliminating any significant differences between Canadian and US GAAP in accounting for pension costs and other post-employment benefits.

B) Foreign Currency Translation

US GAAP requires long term monetary items denominated in foreign currencies be translated at the rates of exchange in effect on the balance sheet date, with the resulting gain or loss included in net income for the period. Canadian GAAP requires these gains or losses be amortized over the life of the long term monetary item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles (Continued)

C) Full Cost Accounting

The full cost method of accounting for conventional oil and natural gas operations under Canadian and US GAAP differ in the following respect. Under US GAAP, a ceiling test is applied to ensure the unamortized capitalized costs in each cost centre do not exceed the sum of the present value, discounted at 10%, of the estimated unescalated future net operating revenue from proved reserves plus unimpaired unproven property costs less future development costs, related production, site restoration and applicable taxes. Under Canadian GAAP, a similar ceiling test calculation is performed with the exception that future revenues are undiscounted and administrative and interest expenses are deducted from revenues.

In computing its consolidated net income for US GAAP purposes, the Company recorded additional depletion in 2001 and certain years prior to 2001 as a result of the application of the ceiling test. These charges were not required under the Canadian GAAP ceiling tests. As a result, the depletion base of unamortized capitalized costs is less for US GAAP purposes.

D) Preferred Securities

Under US GAAP, preferred securities are classified as long term debt and any distributions paid on these securities are treated as interest expense. Issue costs are capitalized and amortized to income over the term of the security. Under Canadian GAAP, preferred securities are classified as equity and any distributions paid, net of applicable income taxes, are recorded as a direct charge to retained earnings. Issue costs are charged directly to retained earnings.

E) Derivative Instruments and Hedging

Prior to 2001, US GAAP required fair value recognition in the financial statements with respect to forward foreign currency exchange contracts associated with anticipated future transactions that do not constitute firm commitments. Gains or losses arising from changes in the market value were immediately reflected in income. Under Canadian GAAP, the Company's forward foreign exchange contracts qualify as hedges for accounting purposes. Payments or receipts on these contracts are recognized in income concurrently with the hedged transaction and the fair values of the outstanding contracts are not reflected in the financial statements.

For US GAAP, the Company adopted SFAS 133 effective January 1, 2001. SFAS 133 requires that all derivatives be recorded on the balance sheet as either assets or liabilities at their fair value. Changes in the derivative's fair value are recognized in current period earnings unless specific hedge accounting criteria are met. Management has currently not designated any of the financial instruments as hedges for US GAAP purposes under SFAS 133.

The adoption of SFAS 133 at January 1, 2001 resulted in the recognition of derivative assets with a fair value of \$858 million, derivative liabilities with a fair value of \$942, a \$117 million (\$79 million, net of tax) charge to other comprehensive income and a \$33 million (\$23 million, net of tax) increase to net income under US GAAP.

As at December 31, 2001, it is estimated that over the following 12 months, \$10 million (\$6 million, net of tax) will be reclassified into income from other comprehensive income.

F) Stock-based Compensation

The Company accounts for its stock-based compensation using the intrinsic value method. Under Canadian GAAP, no compensation costs have been recognized in the financial statements for share options granted to employees and directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles (Continued)

Under FASB Interpretation No. 44 “Accounting for Certain Transactions Involving Stock Compensation”, compensation expense must be recorded if the intrinsic value of the stock options is not exactly the same immediately before and after an equity restructuring.

As part of the Corporate reorganization, as described in Note 3 – Corporate Reorganization, an equity restructuring occurred which resulted in CPL stock options being replaced with stock options granted by PanCanadian as described in Note 15 – Stock Options. This resulted in the replacement options having a different intrinsic value after the restructuring than prior to the restructuring. Canadian GAAP does not require revaluation of these options.

G) Future Income Taxes

Under US GAAP, enacted tax rates are used to calculate future taxes, whereas Canadian GAAP uses substantively enacted tax rates.

The future income tax adjustments included in the Reconciliation of Net Income under Canadian GAAP to US GAAP and the Condensed Consolidated Balance Sheet include the effect of such rate differences, if any, as well as the tax effect of other reconciling items noted.

H) Comprehensive Income

US GAAP requires the disclosure, as comprehensive income, of changes in equity during the period from transactions and other events from non-owner sources. Canadian GAAP does not require similar disclosure. Other comprehensive income arose from the transition adjustment resulting from the January 1, 2001 adoption of SFAS 133. Accumulated other comprehensive income at December 31, 2001 was a loss of \$6 million, net of tax.

I) Recent Accounting Pronouncements

During 2001, the following new or amended standards and guidelines were issued:

Business Combinations and Goodwill and Other Intangible Assets

The Canadian Institute of Chartered Accountants (CICA) issued CICA 1581 “Business Combinations” and CICA 3062 “Goodwill and Other Intangible Assets”. In addition, the Financial Accounting Standards Board (FASB) in the United States issued SFAS 141 “Business Combinations” and SFAS 142 “Goodwill and Other Intangible Assets”. Under the new standards, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method, which could result in additional amounts of goodwill being recorded.

Goodwill and intangible assets with indefinite lives will no longer be amortized but rather subject to a periodic impairment test. This requires prospective application effective January 1, 2002. The impact on the Company’s earnings is immaterial.

Accounting for Asset Retirement Obligations

FASB issued SFAS No. 143 “Accounting for Asset Retirement Obligations”, effective for years beginning after June 15, 2002. The standard requires legal obligations associated with the retirement of long-lived tangible assets to be recognized at fair value. The Company has not yet determined the effect this new standard will have on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Differences Between Canadian And United States Generally Accepted Accounting Principles (Continued)

Accounting for the Impairment or Disposal of Long-Lived Assets

FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The standard supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" and APB Opinion No. 30 "Reporting Results of Operations – Reporting the Effects of Disposal of a Segment of a Business". The standard requires an impairment to be recognized on long-lived assets when the expected undiscounted cash flows are less than the carrying amount. Impairment would be calculated as the carrying amount less the fair value of the assets. The value of long-lived assets to be disposed of by sale is measured at the lower of the carrying amount or the fair value less selling costs. In addition, earnings from discontinued operations between the measurement date and the disposal date are excluded from the net gain/loss on disposal. The Company anticipates that adoption of SFAS 144 will not have a material effect on its consolidated financial statements.

Stock-based Compensation and Other Stock-based Payments

The CICA issued CICA 3870 "Stock-based Compensation and Other Stock-based Payments". The new standard requires that stock-based payments to non-employees, stock appreciation rights and similar awards to be settled in cash granted to employees and non-employees, and direct awards of stock to employees and non-employees be accounted for using a fair value-based method of accounting. The standard is effective for fiscal years beginning on or after January 1, 2002. The Company anticipates that adoption of CICA 3870 will not have a material effect on its consolidated financial statements.

Foreign Currency Translation

The CICA approved amendments to CICA 1650 "Foreign Currency Translation". The amendment eliminates the deferral and amortization of translation gains and losses on long term monetary assets and liabilities. The amendment is effective for fiscal years beginning on or after January 1, 2002. The effect on the Company's consolidated financial statements has not been determined at this time.

Hedging Relationships

The CICA issued Accounting Guideline 13 "Hedging Relationships" which deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The guideline establishes conditions for applying hedge accounting, but does not specify hedge accounting methods. The guideline is effective for fiscal years beginning on or after June 1, 2002. The effect of adopting the guideline on the Company's consolidated financial statements has not been determined at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Disclosures About Oil and Gas Producing Activities

(Unaudited)

The following unaudited supplemental oil and gas information is provided in accordance with the SFAS 69, “Disclosures About Oil and Gas Producing Activities”.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

The following disclosures on standardized measures of discounted cash flows and changes therein relating to proved oil and gas reserves are determined in accordance with SFAS 69, “Disclosures About Oil and Gas Producing Activities”.

In calculating the standardized measure of discounted future net cash flows, year end constant prices and cost assumptions were applied to the Company’s annual future production from proved reserves to determine cash inflows. Future development costs are based on constant price assumptions and assume the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying the year end statutory rate to future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by application of a 10% discount factor to the future net cash flows that may not appropriately reflect future interest rates.

Net Proved Reserves (Company Share After Royalties)

	Natural Gas				Crude Oil & Natural Gas Liquids				
	Canada	U.S.	U.K.	Total	Canada	U.S.	U.K.	Other	Total
	(Billions of cubic feet)				(Millions of barrels)				
2001									
Beginning of year	3,350	208	10	3,568	348	17	24	5	394
Revisions and improved recovery . . .	59	6	–	65	5	1	2	–	8
Extensions and discoveries	448	13	–	461	15	2	–	–	17
Purchase of reserves in place	1	25	–	26	–	–	–	–	–
Sale of reserves in place	(1)	–	–	(1)	(48)	–	–	(5)	(53)
Sales	(353)	(16)	(3)	(372)	(33)	(1)	(4)	–	(38)
End of year	<u>3,504</u>	<u>236</u>	<u>7</u>	<u>3,747</u>	<u>287</u>	<u>19</u>	<u>22</u>	<u>–</u>	<u>328</u>
Developed	2,908	172	7	3,087	241	19	22	–	282
Undeveloped	596	64	–	660	46	–	–	–	46
Total	<u>3,504</u>	<u>236</u>	<u>7</u>	<u>3,747</u>	<u>287</u>	<u>19</u>	<u>22</u>	<u>–</u>	<u>328</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Disclosures About Oil and Gas Producing Activities (Continued)

(Unaudited)

	Natural Gas				Crude Oil & Natural Gas Liquids				
	Canada	U.S.	U.K.	Total	Canada	U.S.	U.K.	Other	Total
	(Billions of cubic feet)				(Millions of barrels)				
2000									
Beginning of year	2,882	—	—	2,882	360	—	—	5	365
Revisions and improved recovery	209	—	6	215	9	—	7	—	16
Extensions and discoveries	446	—	—	446	22	—	—	—	22
Purchase of reserves in place	143	211	7	361	1	17	22	—	40
Sale of reserves in place	(3)	—	—	(3)	(9)	—	—	—	(9)
Sales	(327)	(3)	(3)	(333)	(35)	—	(5)	—	(40)
End of year	<u>3,350</u>	<u>208</u>	<u>10</u>	<u>3,568</u>	<u>348</u>	<u>17</u>	<u>24</u>	<u>5</u>	<u>394</u>
Developed	2,763	146	10	2,919	264	13	24	—	301
Undeveloped	<u>587</u>	<u>62</u>	<u>—</u>	<u>649</u>	<u>84</u>	<u>4</u>	<u>—</u>	<u>5</u>	<u>93</u>
Total	<u>3,350</u>	<u>208</u>	<u>10</u>	<u>3,568</u>	<u>348</u>	<u>17</u>	<u>24</u>	<u>5</u>	<u>394</u>
1999									
Beginning of year	2,823	—	—	2,823	345	—	—	—	345
Revisions and improved recovery	(33)	—	—	(33)	48	—	—	—	48
Extensions and discoveries	379	—	—	379	17	—	—	5	22
Purchase of reserves in place	32	—	—	32	49	—	—	—	49
Sale of reserves in place	(30)	—	—	(30)	(58)	—	—	—	(58)
Sales	(289)	—	—	(289)	(41)	—	—	—	(41)
End of year	<u>2,882</u>	<u>—</u>	<u>—</u>	<u>2,882</u>	<u>360</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>365</u>
Developed	2,512	—	—	2,512	277	—	—	—	277
Undeveloped	<u>370</u>	<u>—</u>	<u>—</u>	<u>370</u>	<u>83</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>88</u>
Total	<u>2,882</u>	<u>—</u>	<u>—</u>	<u>2,882</u>	<u>360</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>365</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Disclosures About Oil and Gas Producing Activities (Continued)

(Unaudited)

Year ended December 31	Canada			United States		
	2001	2000	1999	2001	2000	1999
	(\$ millions)					
Results of Operations						
Oil and gas revenues, net of royalties	\$ 3,018	\$ 2,664	\$ 1,516	\$ 81	\$ 21	\$ –
Operating costs	410	342	332	18	2	–
Depreciation, depletion and amortization	644	635	605	52	14	–
Operating income (loss)	1,964	1,687	579	11	5	–
Income taxes	628	521	169	4	–	–
Results of operations	<u>\$ 1,336</u>	<u>\$ 1,166</u>	<u>\$ 410</u>	<u>\$ 7</u>	<u>\$ 5</u>	<u>\$ –</u>
Capitalized Costs						
Proved oil and gas properties	\$ 10,767	\$ 9,042	\$ 7,978	\$ 538	\$ 265	\$ –
Unproved oil and gas properties	1,693	2,384	2,048	403	351	140
Total capital cost	12,460	11,426	10,026	941	616	140
Accumulated depreciation, depletion and amortization . . .	6,130	5,574	5,020	46	10	2
Net capitalized costs	<u>\$ 6,330</u>	<u>\$ 5,852</u>	<u>\$ 5,006</u>	<u>\$ 895</u>	<u>\$ 606</u>	<u>\$138</u>
Costs Incurred						
Acquisitions						
Proved reserves	\$ 6	\$ 113	\$ 37	\$ 20	\$ 302	\$ –
Unproved reserves	2	47	–	53	211	–
Total acquisitions	8	160	37	73	513	–
Exploration costs	471	449	295	199	61	26
Development	889	721	410	11	–	–
Costs incurred	<u>\$ 1,368</u>	<u>\$ 1,330</u>	<u>\$ 742</u>	<u>\$ 283</u>	<u>\$ 574</u>	<u>\$ 26</u>
Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves						
Future cash flows	\$ 18,424	\$38,544	\$19,050	\$1,809	\$ 964	\$ –
Future production and development costs	6,164	6,640	4,866	917	316	–
Undiscounted pre-tax cash flows	12,260	31,904	14,184	892	648	–
Future income taxes	4,147	11,122	4,669	39	219	–
Future net cash flows	8,113	20,782	9,515	853	429	–
Less discount of net cash flows using a 10% rate	3,240	9,015	3,641	376	211	–
Discounted future net cash flows	<u>\$ 4,873</u>	<u>\$11,767</u>	<u>\$ 5,874</u>	<u>\$ 477</u>	<u>\$ 218</u>	<u>\$ –</u>
Changes in Standardized Measure of Future Net Cash Flows Relating to Proved Oil and Gas Reserves						
Balance, beginning of year	\$ 11,767	\$ 5,874	\$ 3,888	\$ 218	\$ –	\$ –
Changes resulting from:						
Sales of oil and gas produced during the period	(2,607)	(2,273)	(1,185)	(63)	(16)	–
Discoveries and extensions, net of related costs	776	1,912	756	58	–	–
Purchases of proved reserves in place	6	562	693	48	401	–
Sales of proved reserves in place	(373)	(105)	(262)	–	–	–
Net change in prices and production costs	(10,793)	7,272	2,064	172	–	–
Revisions to quantity estimates	143	919	602	19	–	–
Accretion of discount	1,795	863	518	32	–	–
Changes in future development costs	257	136	128	(109)	(58)	–
Net change in income taxes	3,902	(3,393)	(1,328)	102	(109)	–
Balance, end of year	<u>\$ 4,873</u>	<u>\$11,767</u>	<u>\$ 5,874</u>	<u>\$ 477</u>	<u>\$ 218</u>	<u>\$ –</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SUPPLEMENTAL UNITED STATES GAAP INFORMATION

Disclosures About Oil and Gas Producing Activities (Continued)

(Unaudited)

United Kingdom			Other			Total		
<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
						(\$ millions)		
\$152	\$146	\$ —	\$ —	\$ —	\$ —	\$ 3,251	\$ 2,831	\$ 1,516
17	23	—	—	—	—	445	367	332
68	104	—	28	—	—	792	753	605
67	19	—	(28)	—	—	2,014	1,711	579
24	16	—	(11)	—	—	645	537	169
<u>\$ 43</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ (17)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,369</u>	<u>\$ 1,174</u>	<u>\$ 410</u>
\$316	\$309	\$ —	\$ —	\$ 26	\$ 22	\$ 11,621	\$ 9,642	\$ 8,000
200	135	128	228	210	173	2,524	3,080	2,489
516	444	128	228	236	195	14,145	12,722	10,489
136	75	1	146	160	111	6,458	5,819	5,134
<u>\$380</u>	<u>\$369</u>	<u>\$127</u>	<u>\$ 82</u>	<u>\$ 76</u>	<u>\$ 84</u>	<u>\$ 7,687</u>	<u>\$ 6,903</u>	<u>\$ 5,355</u>
\$ —	\$284	\$ —	\$ —	\$ —	\$ —	\$ 26	\$ 699	\$ 37
—	—	—	6	—	—	61	258	—
—	284	—	6	—	—	87	957	37
38	9	20	64	41	52	772	560	393
27	23	—	—	—	—	927	744	410
<u>\$ 65</u>	<u>\$316</u>	<u>\$ 20</u>	<u>\$ 70</u>	<u>\$ 41</u>	<u>\$ 52</u>	<u>\$ 1,786</u>	<u>\$ 2,261</u>	<u>\$ 840</u>
\$660	\$718	\$ —	\$ —	\$185	\$185	\$ 20,893	\$40,411	\$19,235
257	214	—	—	64	64	7,338	7,234	4,930
403	504	—	—	121	121	13,555	33,177	14,305
85	152	—	—	35	32	4,271	11,528	4,701
318	352	—	—	86	89	9,284	21,649	9,604
96	132	—	—	13	17	3,712	9,371	3,658
<u>\$222</u>	<u>\$220</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 5,572</u>	<u>\$12,278</u>	<u>\$ 5,946</u>
\$220	\$ —	\$ —	\$ 73	\$ 72	\$ —	\$ 12,278	\$ 5,946	\$ 3,888
(136)	(168)	—	—	—	—	(2,806)	(2,457)	(1,185)
—	—	—	—	—	113	834	1,912	869
—	440	—	—	—	—	54	1,403	693
—	—	—	(73)	—	—	(446)	(105)	(262)
22	—	—	—	(3)	—	(10,599)	7,269	2,064
30	131	—	—	—	—	192	1,050	602
48	—	—	—	10	—	1,875	873	518
(7)	(11)	—	—	(1)	(15)	141	66	113
45	(172)	—	—	(5)	(26)	4,049	(3,679)	(1,354)
<u>\$222</u>	<u>\$220</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 73</u>	<u>\$ 72</u>	<u>\$ 5,572</u>	<u>\$12,278</u>	<u>\$ 5,946</u>

**ADDITIONAL INFORMATION CONCERNING
PANCANADIAN ENERGY CORPORATION**

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Statement of Executive Compensation

Report on Executive Compensation

PanCanadian's executive compensation program ("Compensation Program") is governed by the Human Resources Management and Compensation Committee ("Committee") of the PanCanadian Board. Among its responsibilities, the Committee makes recommendations to the PanCanadian Board with respect to compensation of the executive officers of PanCanadian and also reviews and monitors the design and competitiveness of the Compensation Program.

The Committee is comprised of Mr. McCready, Mr. Harrison and Mr. Stanford, all of whom are non-management and unrelated Directors.

The Compensation Program is designed to attract, motivate, reward and retain the management talent needed to achieve PanCanadian's business objectives. It is intended to align the interests of the executive officers with those of PanCanadian's Shareholders. Based on a pay-for-performance philosophy, it rewards executive officers on the basis of individual performance (judged subjectively, without reference to set criteria) and corporate performance (judged objectively, with reference to Targets discussed below). Compensation of the Chief Executive Officer, the President and of the other five most highly compensated executive officers of PanCanadian ("Named Executive Officers") has several components, each of which is discussed below.

PanCanadian participates in an annual compensation survey conducted by an independent consultant, of the salary, benefit and other incentive programs in effect with most of the major oil and gas companies in Canada in terms of both assets and production volumes ("Survey"). The Survey is employed as a reference by the Committee in its deliberations.

In October 2001, Mr. David A. Tuer resigned the office of President and Chief Executive Officer, and was replaced by Mr. David P. O'Brien as Chairman and Chief Executive Officer and Mr. Michael A. Grandin as President. Neither Mr. O'Brien nor Mr. Grandin participated in PanCanadian's incentive programs in 2001.

The following table sets forth information concerning the total compensation paid, during each of the last three financial years (as applicable), to the Chief Executive Officer and the other Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
David P. O'Brien ⁽¹⁾⁽²⁾ Chairman & Chief Executive Officer	2001	76,501	Nil	⁽³⁾	Nil	Nil	Nil	21,081 ⁽⁴⁾
Michael A. Grandin ⁽²⁾⁽⁵⁾ President	2001	127,502	Nil	⁽³⁾	Nil	Nil	Nil	18,132 ⁽⁶⁾
David A. Tuer ⁽⁷⁾ President & Chief Executive Officer	2001	506,250	Nil	⁽³⁾	285,000	Nil	1,383,495	198,263 ⁽⁸⁾
	2000	550,000	440,000		Nil	Nil	Nil	51,274
	1999	475,020	215,000		57,000	Nil	93,167	47,604
David J. Boone ⁽⁹⁾ Executive Vice President & Chief Operating Officer	2001	320,417	162,500	⁽³⁾	50,000	Nil	Nil	16,989 ⁽¹⁰⁾
	2000	232,500	162,000		50,000	Nil	Nil	253,453
Gerald J. Macey Executive Vice President, Exploration & Chief Technology Officer	2001	321,667	162,500	⁽³⁾	50,000	Nil	637,598	17,056 ⁽¹⁰⁾
	2000	285,000	171,000		50,000	Nil	Nil	15,201
	1999	272,540	175,000		15,000	Nil	58,361	14,702
Wesley R. Twiss ⁽¹¹⁾ Executive Vice President & Chief Financial Officer	2001	308,333	155,000	⁽³⁾	50,000	Nil	Nil	26,350 ⁽¹²⁾
	2000	60,416	87,000		50,000	Nil	Nil	3,723
Nancy M. Laird Senior Vice President Marketing & Midstream & Chief Environmental Officer	2001	272,083	137,500	⁽³⁾	35,000	Nil	509,937	55,162 ⁽¹³⁾
	2000	240,000	144,000		50,000	Nil	Nil	43,215
	1999	220,020	85,000		15,000	Nil	Nil	40,742
Gerard J. Protti Senior Vice President, New Ventures	2001	288,333	145,000	⁽³⁾	35,000	Nil	627,982	51,536 ⁽¹⁴⁾
	2000	270,000	162,000		35,000	Nil	Nil	37,736
	1999	260,040	100,000		Nil	Nil	58,216	34,755

(1) Assumed office of Chief Executive Officer effective October 12, 2001.

(2) Neither Mr. O'Brien nor Mr. Grandin participated in PanCanadian's employee incentive programs in 2001. They were, however, each granted options under the Directors' Option Plan and pursuant to the Canadian Pacific Limited ("CPL") reorganization in substitution for options held in CPL. See the table below entitled "Option/Stock Appreciation Right ("SAR") Grants During 2001".

(3) Not greater than the lesser of \$50,000 and 10% of the total of the Named Executive Officers' salary and bonus for the fiscal year.

(4) Includes premiums for personal life insurance at two times salary rounded to the next highest \$10,000, and director's fees of \$21,000.

(5) Assumed office of President effective October 12, 2001.

(6) Includes premiums for personal life insurance at two times salary rounded to the next highest \$10,000 and director's fees of \$18,000.

(7) Resigned effective October 12, 2001.

(8) Includes PanCanadian's contribution to employee savings plan equal to 5% of base salary; premiums for personal life insurance at two times salary rounded to the next highest \$10,000; spousal life insurance of \$10,000; dependant life insurance of \$10,000 per dependant; director's fees of \$11,000; fees of \$10,000 in respect of membership on the management committee of Kinetic Resources; vacation pay of \$47,500 on resignation; and \$102,825 regarding the transfer of a company vehicle to Mr. Tuer on resignation.

(9) Commenced employment effective February 28, 2000.

(10) Includes PanCanadian's contribution to employee savings plan of 5% of base salary; premiums for personal life insurance at two times salary rounded to the next highest \$10,000; spousal life insurance of \$10,000 and dependant life insurance at \$10,000 per dependant.

(11) Commenced employment effective October 16, 2000.

(12) Includes PanCanadian's contribution to employee savings plan of 5% of base salary; premiums for personal life insurance at two times salary rounded to the next highest \$10,000; spousal life insurance of \$10,000; dependant life insurance at \$10,000 per dependant; fees of \$10,000 in respect of membership on the management committee of Kinetic Resources.

- (13) Includes PanCanadian's obligation in respect of the defined contribution option under the pension plan equal to 10% of pensionable earnings (salary plus lesser of actual and target bonus); PanCanadian's contribution to the employee savings plan equal to 5% of base salary; premiums for personal life insurance at two times salary rounded to the next highest \$10,000; spousal life insurance of \$10,000; dependant life insurance of \$10,000 per dependant; and fees of \$10,000 in respect of membership on the management committee of Kinetic Resources.
- (14) Includes PanCanadian's obligation in respect of the defined contribution option under the pension plan equal to 10% of pensionable earnings (salary plus lesser of actual and target bonus); PanCanadian's contribution to the employee savings plan equal to 5% of base salary; premiums for personal life insurance at two times salary rounded to the next highest \$10,000; spousal life insurance of \$10,000 and dependant life insurance at \$10,000 per dependant.

Base Salary

When Mr. O'Brien and Mr. Grandin assumed their respective offices on October 12, 2001, PanCanadian agreed to pay them each a monthly salary. The aggregate amount paid to each of them in 2001 is set out in the Summary Compensation Table above.

Under ordinary circumstances, the base salary of the Chief Executive Officer, and of each of the other Named Executive Officers, is determined by the Committee based on the level of responsibility and the experience of the individual, the relative importance of the position to PanCanadian and the performance of the individual during the relevant period. Business and other economic factors are considered as well. None of these factors is given a specific weight by the Committee in determining the base salary of any of the Named Executive Officers. Although greater emphasis is placed on incentive compensation, the Committee considers that a competitive base salary for all employees of PanCanadian is a key factor in achieving and maintaining PanCanadian's desired competitive positioning in the oil and gas industry. Salary information from the Survey is used as a reference point.

Incentive Compensation

Neither Mr. O'Brien nor Mr. Grandin participated in PanCanadian's employee incentive programs in 2001.

Corporate Bonus Plan

The purpose of the corporate bonus plan is to relate a component of compensation directly to annual corporate results for key employees, including the Named Executive Officers. Each key employee at a certain level may earn a bonus equal in amount to a percentage (set in advance by the Committee for that level) of the key employee's annual base salary ("Target Awards"). The Target Awards for the Named Executive Officers in the year 2001 were as follows:

President and Chief Executive Officer . . .	50% of base salary
Executive or Senior Vice President	40% of base salary

Bonus awards are determined by comparing actual financial and operating results for the fiscal year to financial and operating targets set in advance by the Committee ("Targets"). On this basis, awards may range from zero to twice the Target Awards. For 2001, Targets were set for economic value added, future value added and total unit costs per barrel of oil equivalent. In addition, at the discretion of the Committee, the Named Executive Officers and other employees may be awarded an additional bonus in recognition of exemplary performance in relation to a particularly strategic matter.

Long-Term Incentive Plan

PanCanadian has two long-term incentive plans, the Senior Executive Long-Term Incentive Plan ("SELTIP") and the Senior Executive Performance Incentive Plan ("SEPIP"), which are administered by the Committee. The Committee designates certain executive officers of PanCanadian, including the Named Executive Officers, as eligible for participation in these plans. The purpose of these plans is to motivate the participants to take action that will improve the total return to PanCanadian Shareholders over the long term and, in so doing, further align the interests of these executive officers and PanCanadian Shareholders.

In advance of the commencement of any performance period, the participants choose the extent to which they wish to participate in each of the plans. A participant may participate in both plans, each as to a designated percentage, or may participate in only one of the plans.

Under both of the plans, the Committee establishes the performance criteria for the performance period, which are based on measurable financial results of PanCanadian, and also sets the levels of results (“LTIP Targets”) at which allocations will be credited to the participants.

Under SELTIP, the Committee contingently allocates a number of PanCanadian Share equivalents (“SEs”) to each executive participant as at the beginning of each of the first two fiscal years within the performance period. The beginning of the last fiscal year in the performance period marks the beginning of the next performance period. Each contingent allocation of SEs is based on the executive’s base salary and the market price of a PanCanadian Share at year-end. When a dividend is paid on the PanCanadian Shares, each executive’s SE account is contingently allocated additional SEs equal in value to the dividend paid on an equivalent number of PanCanadian Shares.

Performance is measured at the end of the performance period by comparing the actual results with the LTIP Targets. On this basis, SEs ranging in number between zero and twice the contingent allocation are credited to the executive participants at that time. No SEs are credited if actual results do not exceed the threshold level set by the Committee. On each dividend payment date for PanCanadian Shares, additional SEs are credited to the participant in respect of SEs already in his or her account.

Following termination of employment of the executive participant, within the first to occur of 30 days or the end of the calendar year, the value of the SEs credited to the participant’s account is calculated by multiplying the number of SEs in the account by the then market value of a PanCanadian Common Share. The after-tax amount is paid to the participant.

SEPIP is identical to SELTIP except that SEs earned by the participants are paid out in cash, on an after-tax basis, following the end of each performance period.

The current performance period under SEPIP and SELTIP extends from January 1, 2000, to December 31, 2002, (“2000 - 2002 Performance Period”). For 2000, the performance factor was set at 2.0. For the year 2001, the LTIP Targets were (a) PanCanadian’s return on equity relative to a specific target for 50% of the performance factor weighting, and (b) PanCanadian’s total shareholder return, including dividends, relative to the performance of the Oil & Gas Producer Sub-Index on the TSE for the balance of the performance factor weighting.

The results of all allocations of SEs made under SEPIP and SELTIP, to and including December 31, 2001, are indicated in the following table.

Long-Term Incentive Plans — SEPIP and SELTIP Awards in 2001

Name	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Securities-Price-Based Plans		
		Threshold (#)	Target (#)	Maximum (#)
David A. Tuer	2000 - 2002 SELTIP	Nil	Nil	Nil
David J. Boone	2000 - 2002 SELTIP	0	1,825	3,650
Gerald J. Macey	2000 - 2002 SEPIP	0	5,353	10,706
Nancy M. Laird	2000 - 2002 SEPIP	0	2,182	4,364
	2000 - 2002 SELTIP	0	2,182	4,364
Wesley R. Twiss	2000 - 2002 SELTIP	0	1,961	3,922
Gerard J. Protti	2000 - 2002 SEPIP	0	2,532	5,064
	2000 - 2002 SELTIP	0	2,532	5,064

Key Employee Stock Option Plan

To foster a proprietary interest in PanCanadian and provide a long-term performance-related incentive for key employees, PanCanadian maintains a Key Employee Stock Option Plan (the “PanCanadian Employee Option Plan”). The PanCanadian Employee Option Plan is administered by the Committee and provides for the granting of options to purchase PanCanadian Shares to executive officers and other employees of PanCanadian and its subsidiaries who are designated for participation by the Committee. Subject to regulatory requirements, the terms, conditions and limitations of options granted under the PanCanadian Employee Option Plan are determined by the Committee.

In determining individual grants, the Committee considers individual performance during the fiscal year, the relative importance of the position to PanCanadian and PanCanadian’s performance for the year. From time to time, the Committee establishes a ceiling on the number of options that may be held by executives. If the number of options held by an executive reaches that ceiling, no further options are granted to that executive until outstanding options are exercised. The Chief Executive Officer recommends to the Committee for its approval the number of options to be granted to officers, management and employees, and the Committee deliberates upon and determines the number of options to be granted to the Chief Executive Officer.

Options granted prior to February 27, 1997, may be exercised for up to one-half of the number of PanCanadian Shares after the second anniversary of the grant and for the remaining number of PanCanadian Shares after the third and before the tenth anniversary thereof. Each such option provides for the making of a loan by PanCanadian to the optionee to be applied to the purchase of PanCanadian Shares upon exercise of the option. The loan is not to exceed 50% of the subscription price of the PanCanadian Shares purchased through the exercise of the option and will be secured by the PanCanadian Shares purchased.

Options granted by the Committee from February 27, 1997 to November 4, 1999 have a term of five years and do not vest until the third anniversary of the grant. Beginning November 4, 1999, options granted by the Committee have a term of five years and vest 30% on the first anniversary, 60% on the second anniversary and 100% on the third anniversary of the grant. Options granted from February 27, 1997 to February 23, 2000 carry stock appreciation rights, which entitle the optionee to surrender the right to exercise his or her option to purchase a specified number of PanCanadian Shares and to receive cash or PanCanadian Shares (at PanCanadian’s discretion) in an amount equal to the excess of the five-day weighted average trading price of the PanCanadian Shares over the exercise price for the option, multiplied by the number of optioned PanCanadian Shares surrendered. Options granted subsequent to February 23, 2000 do not carry stock appreciation rights.

Option/Stock Appreciation Right ("SAR") Grants During 2001

Name	Securities Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
David P. O'Brien	27,360 ⁽¹⁾	N/A	22.38	36.50	February 7, 2009
	82,080 ⁽¹⁾	N/A	23.24	36.50	February 7, 2010
	8,000 ⁽²⁾	N/A	39.60	39.60	October 4, 2006
Michael A. Grandin	20,520 ⁽¹⁾	N/A	22.38	36.50	February 7, 2009
	41,040 ⁽¹⁾	N/A	23.24	36.50	February 7, 2010
	8,000 ⁽²⁾	N/A	39.60	39.60	October 4, 2006
David A. Tuer	285,000 ⁽³⁾	6.29	48.50	48.50	April 19, 2006
David J. Boone	50,000	1.10	48.50	48.50	April 19, 2006
Gerald J. Macey	50,000	1.10	48.50	48.50	April 19, 2006
Wesley R. Twiss	50,000	1.10	48.50	48.50	April 19, 2006
Nancy M. Laird	35,000	0.77	48.50	48.50	April 19, 2006
Gerard J. Protti	35,000	0.77	48.50	48.50	April 19, 2006

(1) Options granted pursuant to the CPL reorganization effective October 1, 2001 in substitution for options held in CPL. The exercise price of the substituted options was determined in accordance with a formula which allocated the exercise price of the CPL options among the substituted options granted by each of the five public companies, including PanCanadian, resulting from the CPL reorganization.

(2) Options granted on October 4, 2001 to each of Mr. O'Brien and Mr. Grandin under the PanCanadian Directors' Option Plan.

(3) Cancelled.

Aggregated Option/SAR Exercise during 2001 and Year-End Option/SAR Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Received ⁽¹⁾ (\$)	Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End ⁽²⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David P. O'Brien	50,000	1,372,215	109,440	8,000	2,000,016	13,600
Michael A. Grandin	0	0	61,560	8,000	1,129,420	13,600
David A. Tuer	259,100	4,432,710	0	0	0	0
David J. Boone	0	0	15,000	85,000	308,250	719,250
Gerald J. Macey	0	0	118,100	120,500	2,133,775	1,641,275
Wesley R. Twiss	0	0	15,000	85,000	52,500	122,500
Nancy M. Laird	75,000	1,536,330	4,500	95,500	92,475	1,330,775
Gerard J. Protti	11,000	208,210	130,000	85,000	2,277,250	1,115,000

(1) Aggregate net value (market value less exercise price) on exercise.

(2) Aggregate net value (market value less exercise price) as at December 31, 2001.

Pension Plan Benefits

The PanCanadian pension plan offers both a defined benefit and a defined contribution option to all employees. Neither Mr. O'Brien nor Mr. Grandin participate in the PanCanadian pension plan. Among the

other Named Executive Officers, Mr. Protti and Mrs. Laird elected to participate in the defined contribution option. Their defined contribution accruals are reflected in the Summary Compensation Table (under “All Other Compensation”).

The defined benefit option provides a pension based on average pensionable earnings (salary plus lesser of target and actual bonus) over the best 60 consecutive months of employment. The benefits shown in the table below are reduced by the estimated Canada Pension Plan benefit earned for service with PanCanadian until June 1, 2001, after which the benefits are no longer reduced by the Canada Pension Plan Benefit.

Defined benefit pensions are payable for life, but guaranteed for 10 years for single participants. For married participants, a 60% surviving spouse pension is payable. Total pension payments to the participant and spouse are guaranteed for a minimum of five years.

Pension Plan Table

Remuneration (\$)	Years of Service				
	15	20	25	30	35
125,000	37,500	50,000	62,500	75,000	87,500
150,000	45,000	60,000	75,000	90,000	105,000
175,000	52,500	70,000	87,500	105,000	122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
400,000	120,000	160,000	200,000	240,000	280,000
500,000	150,000	200,000	250,000	300,000	350,000
600,000	180,000	240,000	300,000	360,000	420,000

The estimated credited years of service as of December 31, 2001, for the Named Executive Officers who participate in the defined benefit option were:

David A. Tuer	27.75 years to date of resignation
David J. Boone	15.83 years
Gerald J. Macey	18.50 years
Wesley R. Twiss	1.17 years

Employment Agreements

Mr. Tuer is entitled to a deferred pension commencing at age 60, but may receive his pension any time after age 55 subject to a reduction of three percent per year below age 60. Mr. Tuer was granted 14.5 additional years of service under his employment agreement with PanCanadian.

Mr. Macey, Executive Vice President Exploration, was granted nine additional years of service under the terms of his employment agreement. Mr. Boone, Executive Vice President and Chief Operating Officer, was granted 13 additional years of service and an additional two years of service for each of the first five years of PanCanadian service. In each case, the additional credited years of service give rise to additional pension benefits which are reduced by any vested pension entitlement either of them may have with their former employers.

PanCanadian has agreements with the Named Executive Officers (other than Mr. O'Brien, Mr. Grandin and Mr. Tuer) that provide for the payment of certain severance benefits if a change in control of PanCanadian occurs and, within the three-year period following the change in control, the individual's employment is terminated by PanCanadian other than for cause, disability, retirement or death, or by the individual for certain defined reasons such as a change in responsibilities, or a reduction in salary or benefits. The individual will receive a lump sum severance payment equal to the base salary and bonus that would have been earned by that individual through the end of a severance period, which in each applicable case is 24 months. In addition to the

lump sum payment, the severance agreements provide that the Named Executive Officer is entitled to certain benefits including payments related to PanCanadian's pension and incentive compensation plans and the continuation of certain insurance plan benefits for the duration of the severance period.

Compensation of Directors

During 2001, PanCanadian paid each Director a fee of \$1,000 per meeting attended and, except for the Chief Executive Officer, an annual retainer of \$15,000. The Chairmen of the Audit Committee and of the Human Resources Management and Compensation Committee each received an annual retainer of \$2,500. Mr. Harrison received a payment of \$25,000 in recognition of exemplary service on behalf of the PanCanadian Board in 2001. Mr. Harrison and Mr. McCready received an aggregate of \$31,000 in respect of their participation on a new ventures advisory board.

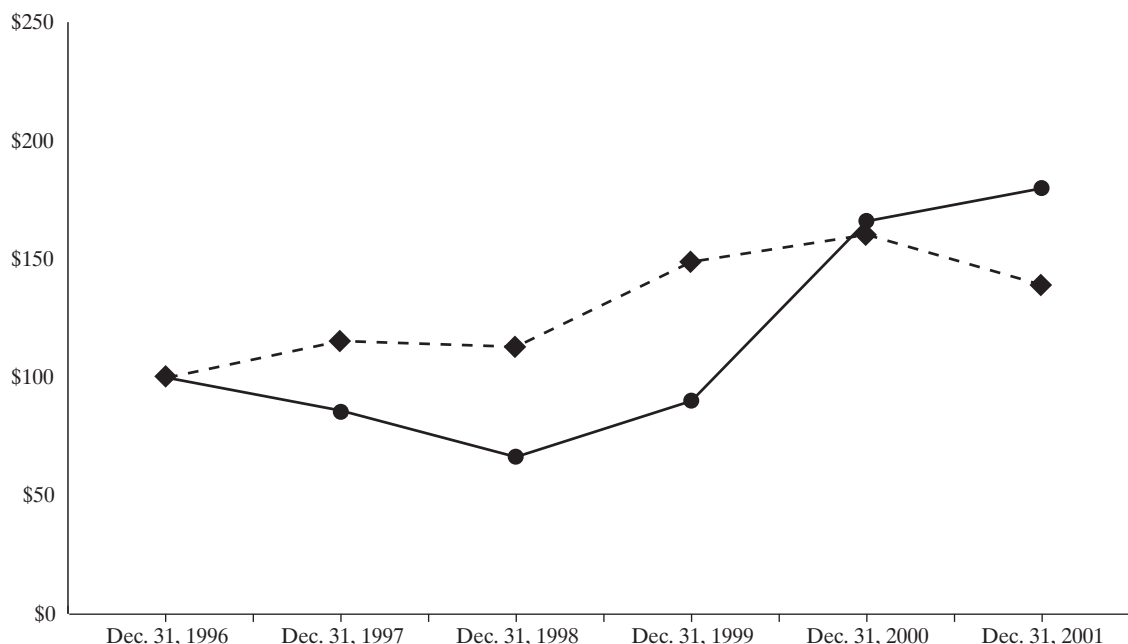
PanCanadian has a share compensation plan (the "Director Share Plan") for Directors who are not employees of PanCanadian or any of its affiliates, which requires that each such Director who is not an employee of PanCanadian and who owns less than 3,000 PanCanadian Shares is required to apply a minimum of 50% of each quarterly installment of his or her basic annual retainer toward the purchase of PanCanadian Shares. Though not required to do so, any non-employee Directors owning 3,000 or more PanCanadian Shares may elect to use any portion of their retainer to purchase additional PanCanadian Shares.

PanCanadian has a Directors' Stock Option Plan which was implemented in October 2001 and approved by PanCanadian Shareholders at a special meeting on September 26, 2001. The maximum number of PanCanadian Shares that may be reserved for issuance pursuant to options granted under the PanCanadian Directors' Stock Option Plan is 500,000. Upon implementation of the plan, each non-employee director of PanCanadian was granted options to purchase 8,000 PanCanadian Shares. Each non-employee director receives an initial grant of an option to purchase 8,000 PanCanadian Shares upon election or appointment and thereafter, an annual grant of options to purchase 4,000 PanCanadian Shares following each annual meeting of shareholders of PanCanadian at which directors are elected.

Comparative Shareholder Return

This line graph and the succeeding table show the return on PanCanadian Shares for the period 1997 through 2001, assuming a \$100 initial investment with all dividends reinvested, as compared to the cumulative returns, assuming a corresponding investment with all dividends reinvested, in respect of The Toronto Stock Exchange "TSE 300" Total Return Index.

**PERFORMANCE GRAPH
FOR FIVE YEARS ENDED DECEMBER 31, 2001**



	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1998	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001
◆ TSE 300 Total Return Composite Index	\$100	\$115	\$113	\$149	\$160	\$139
● PanCanadian	\$100	\$86	\$66	\$90	\$166	\$180

* Assuming an investment of \$100 on December 31, 1996 in Stock or Index, including reinvestment of regular and special dividends.

THE FOREGOING REPORT ON EXECUTIVE COMPENSATION HAS BEEN FURNISHED BY THE MEMBERS OF THE COMMITTEE: KEN F. McCREADY (CHAIRMAN); BARRY W. HARRISON; AND JAMES M. STANFORD.

Indebtedness of Directors and Executive Officers

Management of PanCanadian is not aware of any indebtedness other than routine indebtedness outstanding by, or any guarantees, support agreements, letters of credit or other similar arrangements provided by PanCanadian to, any of the directors, executive officers or senior officers of PanCanadian or any of their associates.

Conflicts of Interest

Some of the directors and senior officers of PanCanadian participate and will continue to participate in business on their own behalf and on behalf of other corporations. If any conflicts arise whereby directors and senior officers have interests in companies or in business activities which are in competition with the business of PanCanadian, such conflicts will be subject to and governed by the laws applicable to directors and officers in conflict of interest, including the procedures prescribed in the CBCA.

Interests of Management and Others in Material Transactions

There are no material interests, direct or indirect, of the directors, senior officers, any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding PanCanadian Shares or any known associate or affiliate of such persons, in any transaction within three years prior to the date hereof or in any proposed transaction which has materially affected or would materially affect PanCanadian.

Principal Shareholders

No persons or companies are the registered holders of or, to the knowledge of PanCanadian, beneficially own, directly or indirectly, more than 10% of the issued and outstanding PanCanadian Shares.

Description of Share Capital

PanCanadian is authorized to issue an unlimited number of PanCanadian Shares, an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series of which 254,939,851 PanCanadian Shares and no preferred shares were issued and outstanding as at December 31, 2001. In addition, as at December 31, 2001, options to purchase 10,511,178 PanCanadian Shares were outstanding under the PanCanadian Option Plans.

PanCanadian Shares

The PanCanadian Shares carry one vote per share. Subject to the prior rights of holders of PanCanadian preferred shares, the holders of PanCanadian Shares share ratably in any dividends or distributions to the holders of PanCanadian Shares.

PanCanadian Preferred Shares

The first preferred shares of PanCanadian are issuable in series. The PanCanadian Board is empowered to fix the number of first preferred shares and the rights, privileges, restrictions and conditions to be attached to the first preferred shares of each series. The first preferred shares of each series rank on a parity with the first preferred shares of every other series and have preference over the second preferred shares and the PanCanadian Shares and any other shares ranking junior to the first preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of PanCanadian. Except with the consent in writing of the holders of all the first preferred shares outstanding, dividends may not be declared and paid on or set apart for payment on the second preferred shares or the PanCanadian Shares or on any other shares ranking junior to the first preferred shares, unless all dividends up to and including any dividend payable for the last completed period for which such dividend is payable on each series of first preferred shares outstanding has been declared and paid or set apart for payment. The holders of any particular series of first preferred shares shall, if the PanCanadian Board so determines prior to the issuance of such series, be entitled to voting rights if PanCanadian fails to pay dividends on such series of first preferred shares for any period so determined by the PanCanadian Board. Subject to the foregoing and to applicable law, the holders of first preferred shares as a class are not entitled to receive notice of, attend or vote at meetings of the PanCanadian Shareholders. The PanCanadian Board may issue first preferred shares until such time as the aggregate amount payable to holders of first preferred shares as a return of capital in the event of the liquidation, dissolution or winding-up of PanCanadian or any other distribution of the assets of PanCanadian among the PanCanadian Shareholders for the purpose of winding-up its affairs would exceed \$500,000,000.

The second preferred shares of PanCanadian are issuable in series. The PanCanadian Board is empowered to fix the number of second preferred shares and the rights, privileges, restrictions and conditions to be attached to the second preferred shares of each series. The second preferred shares of each series rank on a parity with the second preferred shares of every other series, rank junior to the first preferred shares and have preference over the PanCanadian Shares and any other shares ranking junior to the second preferred shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of PanCanadian. Except with the consent in writing of the holders of all the second preferred shares outstanding, dividends may not be declared and paid on or set apart for payment on the PanCanadian Shares or on any other

shares ranking junior to the second preferred shares, unless all dividends up to and including any dividend payable for the last completed period for which such dividend is payable on each series of second preferred shares outstanding has been declared and paid or set apart for payment. The holders of any particular series of second preferred shares shall, if the PanCanadian Board so determines prior to the issuance of such series, be entitled to voting rights if PanCanadian fails to pay dividends on such series of second preferred shares for any period so determined by the PanCanadian Board. Subject to the foregoing and to applicable law, the holders of second preferred shares as a class are not entitled to receive notice of, attend or vote at meetings of the PanCanadian Shareholders. The PanCanadian Board may issue second preferred shares until such time as the aggregate amount payable to holders of second preferred shares as a return of capital in the event of the liquidation, dissolution or winding-up of PanCanadian or any other distribution of the assets of PanCanadian among the PanCanadian Shareholders for the purpose of winding-up its affairs would exceed \$500,000,000.

Option Plans

PanCanadian Key Employee Stock Option Plan

The purpose of the PanCanadian Employee Option Plan is to foster a proprietary interest in PanCanadian and provide a long-term performance related incentive for key employees.

Administration

The PanCanadian Employee Option Plan is administered by the Human Resources Management and Compensation Committee (the “Committee”) of the PanCanadian Board. The Committee has the authority to determine which key employees are to be granted options and to grant options to those key employees. The Committee also has the authority to interpret the PanCanadian Employee Option Plan and any option granted thereunder and the discretion to attach stock appreciation rights in respect of PanCanadian Shares covered by options.

Shares Reserved

As at December 31, 2001, there were 10,431,178 PanCanadian options outstanding under the PanCanadian Employee Option Plan and 2,527,940 PanCanadian options available for grant. Any PanCanadian Shares subject to an option that expires or terminates without having been fully exercised may be made the subject of a further option.

Grant of Options, Exercise Price, Vesting and Expiry

Options may be granted from time to time to eligible persons and an option agreement will be entered into at the time of grant. The exercise price of an option will not be less than the market price of the PanCanadian Shares at the grant date, calculated as the closing price of a board lot of the PanCanadian Shares on the TSE on the last trading day preceding the date on which the option agreement granting the option is made, or, if at least one board lot of PanCanadian Shares shall not have been traded that day, on the next preceding day on which a board lot was traded.

The PanCanadian Board has the right to determine at the time of grant that a particular option will be exercisable in whole or in part on different dates or for reasons other than the passage of time. In addition, the PanCanadian Board may determine after the grant date that a particular option will be exercisable in whole or in part on earlier dates for any reason, including a change of control.

Each option (unless sooner terminated in accordance with the terms, conditions and limitations of the option determined by the compensation committee) shall be exercisable during such period, not exceeding 10 years from the date the option was granted as the compensation committee may determine.

Non-Assignable, No Rights as a Shareholder and Adjustments

An option may be exercised only by the optionholder and will not be assignable, except on death. An optionholder will only have rights as a shareholder of the Company with respect to PanCanadian Shares that the optionholder has acquired through exercise of an option. Nothing in the PanCanadian Employee Option Plan or

in any option agreement will confer on any optionholder any right to remain as an officer or employee of the Company or any subsidiary.

Adjustments will be made to the exercise price of an option, the number of PanCanadian Shares delivered to an optionholder upon exercise of an option and the maximum number of PanCanadian Shares that may at any time be reserved for issuance pursuant to options granted under the PanCanadian Employee Option Plan in certain circumstances, such as a stock dividend, split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change.

PanCanadian Directors' Option Plan

PanCanadian adopted the PanCanadian Directors' Stock Option Plan (the "PanCanadian Directors' Option Plan") effective October 1, 2001. The shareholders of PanCanadian approved the PanCanadian Directors' Option Plan at the special meeting of shareholders of PanCanadian held on September 26, 2001.

Background

The purpose of the PanCanadian Directors' Option Plan is to promote a proprietary interest in PanCanadian among its non-employee directors, align the interests of the non-employee directors more closely to those of other shareholders and assist PanCanadian in retaining and attracting individuals with the experience and ability to act as directors of PanCanadian.

Administration

The PanCanadian Directors' Option Plan is administered by the Committee. The Committee has the authority to interpret the PanCanadian Directors' Option Plan and any option granted thereunder. However, the selection of the non-employee directors to whom options are to be granted, the grant dates, the number of options to be granted, the exercise price of an option, the time during which an option may be exercised and the expiry date of an option are as provided in the PanCanadian Directors' Option Plan, and the Committee has no discretion as to such matters.

Shares Reserved

The maximum number of PanCanadian Shares that may be reserved for issuance pursuant to options granted under the PanCanadian Directors' Option Plan is 500,000. As at December 31, 2001, there were 80,000 options outstanding under the PanCanadian Directors' Option Plan and 420,000 options available for grant. Any PanCanadian Shares subject to an option that expires or terminates without having been fully exercised may be made the subject of a further option.

Grant of Options, Exercise Price, Vesting and Expiry

An initial grant of 8,000 options was made to each non-employee director on the third trading day on the TSE following the effective date of the CPL reorganization, and thereafter, will be made to each person who subsequently becomes a non-employee director on the third trading day on the TSE following the date on which such person is first elected or appointed. An annual grant of 4,000 options will also be made to each non-employee director on the third trading day on the TSE following each annual meeting of shareholders of PanCanadian at which directors are elected. An option agreement will be entered into at the time of grant.

The exercise price of an option granted pursuant to the PanCanadian Directors' Option Plan is the market price of the PanCanadian Shares at the grant date, calculated as the closing price of a board lot of the PanCanadian Shares on the TSE on the grant date.

An option may be exercised by an optionholder as to 100% of the optioned PanCanadian Shares or any part thereof on and after the earlier of (a) the next annual general meeting following the grant date and (b) the first anniversary of the grant date. Options automatically become exercisable on a change of control.

The expiry date of an option is five years after the grant date. An option will expire before its normal expiry date if (a) an optionholder ceases to be a member of the PanCanadian Board (whether as a result of the

resignation of the optionholder from the PanCanadian Board or the optionholder not standing for re-election or not being re-elected as a member of the PanCanadian Board by the PanCanadian Shareholders at a meeting, or for any other reason other than as a result of death), in which case the option will expire on the earlier of the normal expiry date or six months from the date the optionholder ceases to be a member of the PanCanadian Board, or (b) an optionholder dies, in which case the option will expire on the earlier of the normal expiry date or six months from the date of death.

Limited Assignment, Participation Voluntary, No Rights as a Shareholder and Adjustments

An option may not be assigned except in certain circumstances, including death. Participation of a non-employee director in the PanCanadian Directors' Option Plan is entirely voluntary. An optionholder will only have rights as a shareholder of PanCanadian with respect to PanCanadian Shares that the optionholder has acquired through exercise of an option. Nothing in the PanCanadian Directors' Option Plan or in any option agreement will confer on any optionholder any right to remain as a director of PanCanadian.

Adjustments will be made to the exercise price of an option, the number of PanCanadian Shares delivered to an optionholder upon exercise of an option and/or the maximum number of PanCanadian Shares that may at any time be reserved for issuance pursuant to options granted under the PanCanadian Directors' Option Plan, in the same manner as described above with respect to the PanCanadian Employee Option Plan.

Outstanding PanCanadian Options

As of December 31, 2001, there were an aggregate of 10,511,178 options outstanding under the PanCanadian Options Plans, the details of which are as follows.

<u>Group (Number in Group)</u>	<u>Aggregate PanCanadian Shares Under Options</u>	<u>Earliest and Latest Expiry Dates</u>	<u>Range of Exercise Price</u>
Executive Officers (14)	1,326,172	February 27, 2002 to February 7, 2010	\$15.50 to \$48.50
Directors (who are not Executive Officers) (8)	64,000		
Employees and retirees (who are not Executive Officers or Directors) (1,067)	9,121,006	February 27, 2002 to December 3, 2006	\$12.50 to \$49.00
Total Options Outstanding at December 31, 2001	10,511,178		

Shareholder Rights Plan

PanCanadian adopted a shareholder rights plan (the "PanCanadian Shareholder Rights Plan") effective July 30, 2001. The PanCanadian Shareholder Rights Plan was approved by the PanCanadian Shareholders at the special meeting of PanCanadian Shareholders held on September 26, 2001, as required by the TSE.

Background

The primary objective of a rights plan is to provide the PanCanadian Board with sufficient time to explore and develop all options for maximizing shareholder value if a take-over bid is made for PanCanadian and to provide every shareholder with an equal opportunity to participate in such a bid. The PanCanadian Shareholder Rights Plan encourages a potential acquiror to proceed either by way of a Permitted Bid (as defined in the PanCanadian Shareholder Rights Plan), which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the PanCanadian Board.

Summary

The following is a summary of the principal terms of the PanCanadian Shareholder Rights Plan which is qualified in its entirety by reference to the text of the PanCanadian Shareholder Rights Plan. A PanCanadian Shareholder or any other interested party may obtain a copy of the agreement governing the PanCanadian Shareholder Rights Plan by contacting: PanCanadian Energy Corporation, PanCanadian Energy Plaza, 150 - 9th Avenue S.W., P.O. Box 2850, Calgary, Alberta, T2P 2S5, Attention: Corporate Secretary.

The terms of the PanCanadian Shareholder Rights Plan conform to the terms of plans now in place in many other Canadian public companies.

Term

The term of the PanCanadian Shareholder Rights Plan expires 10 years from July 30, 2001, subject to the PanCanadian Shareholders reconfirming such plan by a majority vote at every third annual meeting of PanCanadian after its annual meeting in 2001. On this basis, it is expected that the PanCanadian Shareholder Rights Plan would be considered again at the PanCanadian annual meetings in 2004, 2007 and 2010. If any such approval is not obtained, the PanCanadian Shareholder Rights Plan will then cease to have effect.

Issue of Rights

On the effective date of the PanCanadian Shareholder Rights Plan, one right ("Right") was issued and attached to each PanCanadian Share and will attach to each PanCanadian Share subsequently issued, including the PanCanadian Shares issued to former AEC Shareholders who exchange their AEC Shares for PanCanadian Shares on the Effective Date of the Arrangement in the manner provided for in the Plan of Arrangement.

Rights Exercise Privilege

The Rights will separate from the PanCanadian Shares and will be exercisable 10 trading days (the "Separation Time") after a person has acquired, or commenced a take-over bid to acquire, 20% or more of the PanCanadian Shares, other than by an acquisition pursuant to a take-over bid permitted by the PanCanadian Shareholder Rights Plan (a "Permitted Bid"). The acquisition by any person (an "Acquiring Person") of 20% or more of the PanCanadian Shares, other than by way of a Permitted Bid is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, each Right (other than those held by an Acquiring Person), will permit the purchase by holders of Rights (other than an Acquiring Person) of PanCanadian Shares at a 50% discount to their market price.

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the PanCanadian Shares, reported earnings per share of PanCanadian on a fully diluted or non-diluted basis may be affected. Holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Lock-Up Agreements

A bidder may enter into lock-up agreements with PanCanadian Shareholders whereby such shareholders agree to tender their PanCanadian Shares to the take-over bid (the "Subject Bid") without a Flip-in Event (as referred to above) occurring. Any such agreement must permit the PanCanadian Shareholder to withdraw the PanCanadian Shares to tender to another take-over bid or to support another transaction that exceeds the value of the Subject Bid by as much or more than a specified amount, which specified amount may not be greater than 7%.

Certificates and Transferability

Prior to the Separation Time, the Rights are evidenced by a legend imprinted on certificates for the PanCanadian Shares and are not to be transferable separately from the PanCanadian Shares. From and after the Separation Time, the Rights will be evidenced by Rights certificates, which will be transferable and traded separately from the PanCanadian Shares.

Permitted Bid Requirements

The requirements for a Permitted Bid include the following:

- the take-over bid must be made by way of a take-over bid circular;
- the take-over bid must be made to all PanCanadian Shareholders;
- the take-over bid must be outstanding for a minimum period of 60 days and PanCanadian Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the PanCanadian Shares held by PanCanadian Shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the “Independent Shareholders”), have been tendered to the take-over bid and not withdrawn; and
- if more than 50% of the PanCanadian Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of PanCanadian Shares for not less than 10 business days from the date of such public announcement.

The PanCanadian Shareholder Rights Plan allows for a competing Permitted Bid (a “Competing Permitted Bid”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days.

Waiver

The PanCanadian Board, acting in good faith, may, prior to the occurrence of a Flip-in Event, waive the application of the PanCanadian Shareholder Rights Plan to a particular Flip-in Event (an “Exempt Acquisition”) where the take-over bid is made by a take-over bid circular to all holders of PanCanadian Shares. Where the PanCanadian Board exercises the waiver power for one take-over bid, the waiver will also apply to any other take-over bid for the Company made by a take-over bid circular to all holders of PanCanadian Shares prior to the expiry of any other bid for which the PanCanadian Shareholder Rights Plan has been waived.

Redemption

The PanCanadian Board with the approval of a majority of votes cast by the PanCanadian Shareholders (or the holders of Rights if the Separation Time has occurred) voting in person or by proxy at a meeting duly called for that purpose may redeem the Rights at \$0.000001 per PanCanadian Share. Rights will be deemed to have been redeemed by the PanCanadian Board following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition.

Amendment

The PanCanadian Board may amend the PanCanadian Shareholder Rights Plan with the approval of a majority of the votes cast by PanCanadian Shareholders (or the holders of Rights if the Separation Time has occurred) voting in person or by proxy at a meeting duly called for that purpose. The PanCanadian Board without such approval may correct clerical or typographical errors and, subject to approval as noted above at the next meeting of the PanCanadian Shareholders (or the holders of Rights, as the case may be), may make amendments to the PanCanadian Shareholder Rights Plan to maintain its validity due to changes in applicable legislation.

PanCanadian Board

The PanCanadian Shareholder Rights Plan will not detract from or lessen the duty of the PanCanadian Board to act honestly and in good faith with a view to the best interests of PanCanadian. The PanCanadian Board, when a Permitted Bid is made, will continue to have the duty and power to take such actions and make such recommendations to shareholders as are considered appropriate.

Exemption for Investment Advisors

Investment advisors (for fully managed accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 20% of the PanCanadian Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

Auditors, Transfer Agent and Registrar

PanCanadian's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta. PanCanadian's transfer agent and registrar is CIBC Mellon Trust Company, at its offices in Calgary, Montreal and Toronto.

APPENDIX I

RISK FACTORS

RISK FACTORS

In addition to the other information included in the Joint Circular, AEC Securityholders and PanCanadian Shareholders should consider the following factors in evaluating the Merger and voting in respect of the AEC Arrangement Resolution and the PanCanadian Combination Resolutions.

Risks Related to the Oil and Gas Industry

A substantial or extended decline in oil and gas prices could have a material adverse effect on EnCana.

EnCana's financial condition will be substantially dependent on, and highly sensitive to, the prevailing prices of crude oil and natural gas. Fluctuations in crude oil or natural gas prices could have an adverse effect on EnCana's operations and financial condition and the value and amount of EnCana's reserves. Prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for, crude oil and natural gas, market uncertainty and a variety of additional factors beyond the control of EnCana. Oil prices are determined by international supply and demand. Factors which affect crude oil prices include the actions of the Organization of Petroleum Exporting Countries ("OPEC"), the condition of the Canadian, U.S. and Asian economies, government regulation, political stability in the Middle East and elsewhere, the foreign supply of oil, the price of foreign imports, the availability of alternate fuel sources and weather conditions. Natural gas prices realized by EnCana will be affected primarily by North American supply and demand, weather conditions and by prices of alternate sources of energy. Any substantial or extended decline in the prices of crude oil or natural gas could result in a delay or cancellation of existing or future drilling, development or construction programs or curtailment in production at some properties or result in unutilized long-term transportation commitments, all of which could have an adverse effect on the revenues, profitability and cash flows of EnCana.

EnCana will conduct an annual assessment of the carrying value of its assets in accordance with Canadian generally accepted accounting principles. If oil and natural gas prices decline, the carrying value of EnCana's assets could be subject to downward revisions, and EnCana's earnings could be adversely affected.

If EnCana fails to acquire or find additional reserves, its reserves and production will decline materially from AEC's and PanCanadian's current combined level.

EnCana's future oil and natural gas reserves and production, and therefore its cash flows and results of operations, will be highly dependent upon its success in exploiting its current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, EnCana's reserves and production will decline over time as reserves are depleted. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, EnCana's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. In addition, there can be no assurance that EnCana will be able to find and develop or acquire additional reserves to replace production at acceptable costs. A material decline in reserves and production levels may also result in unutilized long-term pipeline capacity.

In addition, future throughput on EnCana's pipelines will depend upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Without reserve additions, or expansion of the areas served by the pipelines, throughput on the pipelines will decline over time as reserves are depleted. Furthermore, as reserves are depleted or if product prices for oil or natural gas decline, production costs may increase relative to the remaining value of the reserves in place, producers may shut-in production, seek out lower cost alternatives for transportation, or pressure pipeline operators, including EnCana, to reduce tariffs.

Over the long term, EnCana's pipeline business will depend, in part, on the level of demand for oil and natural gas shipped through its pipelines and stored in its facilities. EnCana cannot predict the impact of future economic conditions and competition on the energy and petrochemical industries which in turn would affect the demand for oil and natural gas.

Oil and gas reserve data and future net revenue estimates are uncertain.

There are numerous uncertainties inherent in estimating quantities of oil and natural gas reserves, including many factors beyond the control of AEC and PanCanadian. The reserve data included in this Joint Circular represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as product prices, future operating and capital costs, historical production from the properties and the assumed effects of regulation by governmental agencies, all of which may vary considerably from actual results. All such estimates are to some degree uncertain, and classifications of reserves are only attempts to define the degree of uncertainty involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. EnCana's actual production, revenues, taxes and development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

EnCana will be exposed to fluctuations in foreign exchange rates.

Crude oil and natural gas prices are generally based on a U.S. dollar market price, while operating and capital costs are primarily in Canadian dollars. In addition, EnCana is expected to have a portion of its debt repayable in U.S. dollars. Fluctuations in exchange rates between the U.S. and Canadian dollar will therefore give rise to foreign currency exchange exposure.

EnCana will be exposed to fluctuations in interest rates.

EnCana will be exposed to fluctuations in short-term Canadian and U.S. interest rates, the use of fixed and floating rate debt and, to a lesser extent, the use of derivative financial instruments, as their market value is sensitive to interest rate fluctuations. A portion of EnCana's available debt capacity may be in revolving, floating rate bank facilities.

EnCana's marketing activities will expose it to energy trading risks.

EnCana's marketing activities will expose it to energy trading risks including risks associated with commodity price, financial derivatives and counterparty default. These exposures will be managed by generally matching purchases and sales and through the use of derivative instruments comprised of futures, forwards, swaps and options. Exposures are subject to approved risk management and credit policies that restrict amounts to prescribed limits and monitoring using daily value-at-risk ("VAR") calculations and credit analysis. Although VAR and credit limits are a reasonable measure of exposure, they do not represent a maximum possible uninsured loss limit.

EnCana's hedging activities will expose it to the risk of foregone revenues.

To reduce exposure to changes in the prices of oil and natural gas, EnCana may enter, and AEC and PanCanadian have entered into, hedging arrangements for a portion of their oil and natural gas production or foreign currency exchange exposure. Some hedging activities have the effect of providing a fixed price for a portion of expected future oil and natural gas production over a fixed period of time. Hedging arrangements may expose EnCana to financial risk in some circumstances, including the following:

- if counterparties to the hedging contracts default on their contract obligations; or
- market prices may exceed the prices at which EnCana is hedged, resulting in the need to make cash payments.

As a result of hedging, EnCana may not fully benefit from positive price and exchange rate movements.

EnCana will not operate all of its properties and assets.

Other companies operate some of the assets in which AEC and PanCanadian have interests. As a result, EnCana will have limited ability to exercise influence over operations of these assets or their associated costs. EnCana's dependence on the operator and other working interest owners for these properties and EnCana's limited ability to influence operations and associated costs could materially adversely affect EnCana's financial performance. The success and timing of EnCana's activities on assets operated by others therefore will depend upon a number of factors that are outside of EnCana's control, including:

- timing and amount of capital expenditures;
- the operator's expertise and financial resources;
- approval of other participants;
- selection of technology; and
- risk management practices.

The energy industry is highly competitive.

The energy industry is highly competitive in all aspects, including the exploration for, and the development of, new sources of supply, the construction and operation of crude oil and natural gas pipelines and facilities, the acquisition of oil and gas interests and the transportation and marketing of crude oil, natural gas, natural gas liquids and electricity. EnCana will compete not only among participants in the energy industry, but also between petroleum products and other energy sources. EnCana's competitors will include integrated oil and gas companies, numerous other senior oil and gas companies, some of which may have greater financial and other resources than EnCana.

There are differences in U.S. and Canadian practices for reporting reserves and production.

EnCana will report production and reserve quantities in accordance with Canadian practices. These practices are different than the practices used to report production and estimate reserves in reports and other materials filed with the SEC by U.S. companies. The primary differences are summarized below:

- EnCana will follow the Canadian practice of reporting gross production and reserve volumes, which are prior to the deduction of royalties and similar payments. In the U.S., production and reserve volumes are reported after deducting these amounts.
- EnCana will include in its filings made with Canadian securities authorities estimates of probable reserves. The SEC generally prohibits the inclusion of estimates of probable reserves in filings made with the SEC.

As a consequence, EnCana's production volumes and reserve estimates may not be comparable to those made by U.S. companies subject to SEC reporting and disclosure requirements.

EnCana's business will be subject to environmental legislation in all jurisdictions in which it operates and any changes in such legislation could negatively affect the results of operations.

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of Canadian, U.S. and other federal, provincial, state and municipal laws and regulations (collectively, "environmental legislation").

Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that wells, facility sites and other properties associated with EnCana's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or

permit applications. Compliance with environmental legislation can require significant expenditures, including expenditures for clean up costs and damages arising out of contaminated properties and failure to comply with environmental legislation may result in the imposition of fines and penalties. Although it is not expected that the costs of complying with environmental legislation will have a material adverse effect on EnCana's financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

In 1994 the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol which will require, upon ratification, nations to reduce their emissions of carbon dioxide and other greenhouse gases. Canada has not ratified the Kyoto Protocol, but should it do so reductions in greenhouse gases from EnCana's operations may be required which could result in increased capital expenditures and reductions in production of oil and gas. It is expected that other changes in environmental legislation may also require, among other things, reductions in emissions to the air from EnCana's operations and result in increased capital expenditures. Although it is not expected that future changes in environmental legislation will result in materially increased costs, such changes could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on EnCana's financial condition or results of operations.

EnCana's operations will be subject to business interruption and casualty losses.

EnCana's business will be subject to all of the operating risks normally associated with the exploration for and production of oil and gas and the operation of midstream facilities. These risks include blowouts, explosions, fire, gaseous leaks, migration of harmful substances and oil spills, any of which could cause personal injury, result in damage to, or destruction of, oil and gas wells or formations or production facilities and other property, equipment and the environment, as well as interrupt operations. In addition, all of EnCana's operations will be subject to all of the risks normally incident to the transportation, processing and storing of oil, natural gas and other related products, drilling of oil and natural gas wells, and the operation and development of oil and gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, equipment failures and other accidents, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution and other environmental risks.

The occurrence of a significant event against which EnCana is not fully insured could have a material adverse effect on EnCana's financial position.

EnCana's foreign operations will expose EnCana to risks from abroad which could negatively affect EnCana's results of operations.

Some of AEC's and PanCanadian's operations and related assets are located in countries outside North America, some of which may be considered to be politically and economically unstable. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations, such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, governmental regulation and the risk of actions by terrorist or insurgent groups, any of which could adversely affect the economics of exploration or development projects.

Deep water drilling operations will expose EnCana to risks which could negatively affect EnCana's results of operations.

Drilling operations in deep water areas are by their nature more difficult and costly than drilling operations in shallow water. They require the application of more advanced drilling technologies, involving a higher risk of technological failure which may result in significantly higher drilling costs. Deep water wells are completed using subsea completion techniques that require substantial time and the use of advanced remote installation equipment. These operations involve a high risk of mechanical difficulties and equipment failures that could result in significant cost overruns.

Delays and cost overruns in the commencement of production will affect the value of EnCana's deep water prospects and the discounted present value of reserves attributable to those prospects.

In deep water, the time required to commence production following a discovery is longer than in shallow water and onshore. Deep water discoveries and prospects will require the construction of expensive production facilities and pipelines prior to the commencement of production. EnCana cannot estimate the costs and timing of the construction of these facilities with certainty, and the accuracy of such cost and timing estimates will be affected by a number of factors beyond EnCana's control, including the following:

- the availability of materials necessary to construct the facilities;
- the proximity of EnCana's discoveries to pipelines; and
- decisions made by the operators of such deep water wells.

Risks Related to the Business Currently Operated by AEC

AEC's participation in Syncrude poses risks and uncertainties which could adversely affect EnCana's business and results of operations.

The mining of oil sands, the extraction of bitumen from the oil sands and the upgrading of such bitumen involve particular risks and uncertainties. The Syncrude plant, located near Fort McMurray in northern Alberta, is susceptible to loss of production or slowdowns due to the interdependence of its component systems. There can be no assurance that any required maintenance work will not affect Syncrude's annual average production. In addition, severe climatic conditions at Syncrude can cause reduced production and in some situations, result in higher costs. Furthermore, mine development and expansion of production can entail significant capital outlays. The costs associated with production at Syncrude are largely fixed and, as a result, operating costs per unit are largely dependent on the levels of production. Therefore, reduced production levels would adversely affect EnCana's business and results of operations.

Risk Factors Related to PanCanadian

PanCanadian is subject to indemnification obligations in connection with PanCanadian's spin-off from Canadian Pacific Limited.

In connection with PanCanadian's spin-off from Canadian Pacific Limited on October 1, 2001, PanCanadian entered into an arrangement agreement with certain other parties to the spin-off which contains a number of representations, warranties and covenants, including (a) an agreement by each of the parties to indemnify and hold harmless each other party on an after-tax basis against any loss suffered or incurred resulting from a breach of a representation, warranty or covenant; and (b) a covenant that each party will not take any action, omit to take any action or enter into any transaction that could adversely impact certain tax rulings received in connection with the spin-off, including government opinions and related opinions of counsel and the assumptions upon which they were made.

With respect to Canadian taxation, in addition to various transactions that the respective parties were prohibited from undertaking prior to the implementation of the CPL arrangement, after the implementation of the CPL arrangement, no party generally is permitted to dispose of or exchange more than 10% of its assets or, among other things, undergo an acquisition of control without severe adverse consequences where such disposition or acquisition of control is for Canadian tax purposes part of a "series of transactions or events" that includes the CPL arrangement, except in limited circumstances.

Should PanCanadian be found to have breached its representations and warranties or should PanCanadian or EnCana fail to satisfy the contractual covenants, EnCana would be obligated to indemnify the other parties to the arrangement agreement for losses incurred in connection with such breach or failure. In addition, PanCanadian is, and EnCana will be, required to indemnify the parties to the arrangement agreement against any loss which they may incur resulting from a claim against PanCanadian or EnCana, their respective businesses or their respective assets, whether arising prior to or after the completion of the CPL arrangement. An indemnification claim against PanCanadian or EnCana pursuant to the provisions of the arrangement agreement could have a material adverse effect upon PanCanadian (or EnCana).

With respect to the Merger, PanCanadian and AEC have received opinions from PanCanadian's Canadian tax counsel, Felesky Flynn LLP, and from AEC's Canadian tax counsel, McCarthy Tétrault LLP, based in part on certain tax rulings, opinions and other written advice received from Canadian federal fiscal authorities, and an opinion from PanCanadian's U.S. tax counsel, Sidley Austin Brown & Wood, to the effect that the Merger will not cause the CPL arrangement to be taxed in a manner inconsistent with the tax rulings received in connection with the CPL arrangement. The opinions are subject to qualifications and assumptions which PanCanadian and AEC consider to be reasonable. See "Part I — The Merger — Certain Tax Matters" in the Joint Circular.



If you are an AEC Securityholder or PanCanadian Shareholder, please direct all inquiries to:

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*This Joint Circular can be viewed at
www.aec.ca, www.pcenergy.com, www.gsccanada.com or www.sedar.com*